1989-1990 BUDGET

Budget Speech and Additional Information

Delivered before the National Assembly
by Mr. Gérard D. Levesque,
Minister of Finance,
on May 16, 1989.

Gouvernement du Québec
Ministère des Finances

90-00730/

ISSN 0839-8429
ISBN 2-5510-8383-4

Legal deposit, 2nd quarter 1989
Bibliothèque nationale du Québec

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Introduction

The 1990s will soon be upon us, full of promise and challenges to be met. The Budget I am tabling today comes at a crucial time in the history of Québec. The progress made until now, in economic and fiscal terms, and in terms of public finances, enables us to contemplate the future with confidence.

At a time when barriers between countries and continents are being eliminated one after the other, Québec will have to find its place in a world where competition is increasingly keen. Job creation and economic development must forge ahead if Québec is to flourish.

It will take sustained effort to ensure that this type of economic development is durable, respects environmental concerns, and encompasses all regions of Québec. We must continue to adequately support the family, and enhance the quality of life of all Quebecers, in keeping with their aspirations.

To meet such daunting challenges, the federal government will have to rethink its strategies and take more fully into account their effect on the provinces, especially the less privileged ones. The most recent federal budget has struck a blow to Québec's public finances. Several budget cutbacks directly affect our revenues and expenditures. Moreover, the federal budget will have an unexpected economic impact. Over the next three years, Québec will have to compensate for a resulting shortfall of $ 1 300 000 000.

The policies we have adopted in recent years will help us to absorb the shock. At present, Québec's economy is in very good health. We promised to create 80 000 jobs a year and have done so. It was necessary to raise the overall rate of investment to nearly 20 percent of gross domestic product, and we have done so.

The improvement in government finances has been a contributing factor. We promised to reduce taxes and stop borrowing to cover current expenditures. We successfully capped growth in expenditures, thereby reducing the deficit and restoring competitiveness to the Québec taxation system.

With the economy on a sounder footing, lighter taxes and the government's financial situation ameliorated, we can now tackle the challenges of the 1990s, although the most recent federal budget makes the task appreciably harder. In the course of this Budget Speech, I will outline the main objectives we must pursue in the coming years and those measures we intend to adopt immediately to achieve them.

I. An Economic Policy Geared to the Future

Economic situation in 1988

Vigorous economic growth

Québec enjoyed brisk economic growth in 1988. Real domestic output rose by 4.9 percent, higher than the 4.5 percent growth recorded in Canada as a whole, and the 4 percent noted in OECD member countries.

The non-residential investment sector was the driving force behind economic growth. It rose by 15 percent, the highest level since 1975. Following the peaks reached in 1986 and 1987, residential construction maintained itself at a level markedly above historical trends. In 1988, housing starts exceeded 58 000 units, compared with an average of 47 000 over the preceding eight years. Overall public and private sector investment totalled $ 27 784 000 000 in Québec, an 11.4 percent increase.

83 000 new jobs and unemployment down

Some 83 000 mainly full-time jobs were created. Unemployment declined by 0.9 percentage points in relation to 1987, to an average of 9.4 percent.

Performance in recent years

Economic growth surpasses the Canadian average

Québec's sound economic performance in 1988 reflects the economic upturn which has been observed since our government came to power. Since 1986, economic growth has averaged 4.4 percent per year, compared with 3.9 percent in Canada as a whole, and 3.4 percent in member countries of the OECD. Contrary to trends in previous years, Québec's economic growth has surpassed the Canadian average in recent years.

Such performance is no accident : it is closely tied, in particular, to the measures our government has adopted since December 1985 to foster competitiveness. In 1985, 372 000 Quebecers were out of work, an unemployment rate of 11.8 percent. The investment rate as a proportion of gross domestic product was significantly lower than that observed in the member countries of the OECD. It was essential to turn the situation around, and our government immediately, resolutely set out to do so.

Economic objectives attained

The results are striking. In terms of investments, Québec has outperformed Canada as a whole. Public and private sector investment has risen 13.1 percent per year over the past three years, compared with 10.8 percent in Canada overall. In 1988, we achieved our objective of raising overall investment in the Québec economy to between 19 percent and 20 percent of gross domestic product. I am especially pleased to note that it is private sector investment which has enabled us to attain this level. This shows that our government has helped create a climate propitious to economic development.

Between 1986 and 1988, 233 000 jobs were created in Québec, most of them full time. The current unemployment rate is the lowest recorded since the mid-1970s. Unemployment among young people is the lowest since 1975, when statistics were first compiled.

Challenges of the 1990s

Until now, the government has, by and large, achieved the economic goals it has set for itself. Despite the progress we have made, we must do much more. Unemployment above 9 percent is still too high. Below this level, however, we must expect progress to be slower and more arduous. To further reduce unemployment, Québec wage earners and businesses must adapt to the new economic situation.

Changing world economy : keener competition

The nations of the world are becoming increasingly interdependent. The growth rate of world trade largely outstrips increases in output. International trade, which accounted for 12 percent of world output in 1965, now accounts for 19 percent. International capital transactions are growing even more rapidly.

These phenomena are accompanied by freer trade, for example, within the EEC in 1992, between Canada and the United States, and in Asia. The Québec government supports the Canada-U.S. Free Trade Agreement, thereby keeping Québec in the mainstream.

Today, the economy demands even greater mastery of knowledge, science and technology. At the same time, technical and scientific knowledge circulates extremely quickly. As a result, a greater proportion of mass production can be carried out in low-wage countries, thereby compelling industrialized economies such as Québec to specialize in production which demands a more skilled, creative and innovative work force.

The future of Québec businesses will be decided in a world where competition will be keener, but where potential for expansion will be greater. To succeed, they will have to rely on innovative, specialized manpower, and develop and adapt new products and processes. These companies will require substantial funds tailored to their needs, whether venture capital or short and long-term financing. They will have to keep abreast of scientific and technological knowledge and, more importantly, contribute to the advancement of such knowledge.

Conditions for success

For this reason, today's Budget contains initiatives aimed at each sector underlying a dynamic, modern economy :

- ☐ human resources ;
- ☐ technological resources ;
- ☐ financial resources ;
- ☐ entrepreneurship and venture capital ;
- ☐ regional vitality ;
- ☐ public sector investment.

To successfully meet the challenges of the 1990s, Québec must invest in each of these fields. I will describe the measures the government intends to adopt in each case, both in the short and long terms.

A. Investing in human resources

The main task entails investing further in human resources. Québec workers have achieved a high level of education and are among the most competent and best trained in the world. However, it is clear that further improvement is needed in terms of the basic training educational institutions provide and the training and retraining of the labour force.

University training and research

In the coming years, the most successful economies will be those in which the universities are centres of excellence. To achieve this goal, they must provide high-quality scientific training and conduct research of international calibre. Only the quest for excellence will make it possible to sustain economic competitiveness, create jobs and maintain a pool of qualified researchers needed to expand high-technology enterprises.

Over the past 20 years, Québec universities have striven to educate a larger proportion of Quebecers. Now that Québec has caught up, we must focus more specifically on the quality of training and research. It is important to tailor the financing of university teaching and research to the needs and aspirations of Québec society.

Additional funds for universities

The government already provides substantial grants to the universities and assistance for research, through tax measures or public spending. However, we must increase such financing. I am pleased to announce today that we intend to go farther still : we will earmark $ 60 000 000 for the universities during the 1989-1990 academic year, and $ 6 000 000 for researchers, for a total of $ 66 000 000.

A thorough reform of university financing will, of course, demand even more substantial sums, which can later be tailored to the government's financial resources. The extent of the funds allocated this year will, however, enable us to point the universities in directions tied to Québec's economic and social development.

From this perspective, broadening the bases of university financing must be accompanied by measures adopted in the universities to enhance their level of excellence, develop research capacity, adjust training to economic needs, and improve their financial situation. Rules respecting the allocation of resources among the universities will reflect these objectives. They will be spelled out shortly by the Minister of Higher Education and Science.

Manpower training

During the 1990s, burgeoning technological change and keener foreign competition will increase the need to train and retrain workers. Québec firms invest less than their counterparts in the other provinces in on-the-job training. Needs are especially acute among small and medium-sized businesses. Governments are aware of this shortcoming and, in recent years, have launched a wide array of programs. However, intervening parties concur that such programs are too numerous, too unwieldy and often inaccessible.

More accessible manpower adaptation programs

Under its strategy for adjusting to free trade, the Québec government has already adopted measures to make its programs more accessible to workers and businesses. To this end, all services offered by the ministère de la Main-d'oeuvre et de la Sécurité du revenu will be centralized within the future Commissions d'adaptation de la main-d'oeuvre.

However, Québec must do even more to offset underinvestment by businesses in manpower training. Having examined the question, the government has concluded that it should focus its strategy on the adoption of tax incentives, which make it possible to intervene in a flexible, efficacious manner, without impinging upon the autonomy of workers and businesses.

The implementation of such incentives will demand the elaboration of a complete administrative framework, just when Ottawa has announced that it is contemplating a major overhaul of its training programs. Tax measures must be tailored to budgetary programs in this sector. Moreover, the impact of the changes envisaged in the Québec taxation system will be even more decisive if they are introduced jointly with the federal government.

Consequently, staff in my department and the ministère de la Main-d'oeuvre et de la Sécurité du revenu will continue to elaborate the government's strategy. They will work closely with federal officials in this respect. We hope to clarify these measures during the coming year.

B. Investing in new technologies

Québec belongs to a group of advanced industrial nations with which it must increasingly compete. In the coming years, it will have to keep abreast of scientific knowledge and develop its technological resources to the utmost. Our government is aware of the strategic importance of this type of investment ; since 1986, it has adopted a series of measures to help businesses meet the technological challenge.

Fiscal measures

The government is convinced that it is incumbent upon businesses rather than the State to choose the most suitable projects in this field, which is why we are emphasizing the taxation system as a means of promoting the private sector. Our approach focuses on fostering a favourable long-term climate on which businesses and researchers can rely to establish themselves and prosper in Québec.

Tax incentives designed to promote research and development (R & D) in Québec are among the best in North America. Details of these measures, the incentive they provide and their impact on Québec companies are explained in an appendix to the Budget Speech dealing with government strategy in the realm of R & D.

However, in the course of consultations, a number of Québec high-technology firms, especially small and medium-sized ones, indicated the problems they have encountered in obtaining financing. The problem is twofold : the scarcity of venture capital, and a lag of several months in obtaining the benefit of fiscal measures related to their activities. I intend to take the following steps to remedy this situation.

— Research and development

New measures to facilitate R & D financing

First, new measures will be adopted to ensure the availability of venture capital to finance R & D. Moreover, we will take the appropriate steps to make R & D funds more readily available through venture capital companies. Consequently, I am announcing that such companies no longer need to be listed on the stock exchange to take advantage of tax benefits in this field. In addition, the shareholders of a company which has made a share offering under the QSSP or through a QBIC are eligible for additional deductions of 50 percent and 100 percent on any portion of their investment in the company used to finance R & D, even when most of the offering is not used for this purpose.

Second, to accelerate the payment of tax credits to small and medium-sized businesses and facilitate the financing of this type of activity, two measures will be adopted. At present, companies may deduct their R & D tax credit from their income tax instalments. I am announcing that this procedure will be extended to tax on capital payments. I am also announcing a new SDI financing program intended for companies which are not eligible for this new provision. The SDI will guarantee loans granted by financial institutions, equivalent to a maximum of 75 percent of provincial and federal tax credits for R & D projects.

Third, to stabilize the taxation system as it applies to R & D, I am announcing that the temporary measures adopted in April 1987 and May 1988, slated to expire December 31, 1992, will be extended for three more years. Details of these measures and those which follow are outlined in the appendix on fiscal and budgetary measures, which is an integral part of this Budget Speech.

— Dissemination of technology

Accelerated depreciation of patents and licences

In an economy the size of Québec's, an effective way of deriving the benefits of high technology is through technology transfers. To encourage more Québec companies to adopt this strategy, I am announcing that, as of midnight tonight, the cost of patents and licences will be eligible for the 100 percent accelerated depreciation introduced last year for certain categories of goods used in processing.

— Rolling stock

Sales tax on rolling stock abolished

The sales tax currently applies to the rolling stock a firm purchases, with the exception of material used solely outside public thoroughfares in mining or forestry operations. A growing array of production equipment not likely to ply public thoroughfares is deemed to be rolling stock, simply because such equipment has wheels. It is therefore subject to the sales tax. The current taxation system unduly discourages the use of the most efficient techniques.

It is time to bring our fiscal policy into line with industrial processes. For this reason, I am announcing that, as of midnight tonight, virtually all rolling stock used for production purposes, which is not used on a road or railway, will be exempt from the sales tax.

The fiscal measures I have just announced to foster investment in technology will total $ 49 000 000 over a full fiscal year.

Technological development fund

Grants for catalyst projects

Fiscal policy will be amplified by the technological development fund which the Prime Minister announced at the Québec technology summit last October. The $ 300 000 000 fund will serve a wide array of initiatives. However, it focuses first and foremost on catalyst projects which involve businesses and research organizations in far-reaching initiatives, to be launched by industrial partners who will establish their main objectives and manage them.

I am announcing that such projects will be eligible for a 40 percent refundable tax credit. The related R & D expenditures will receive the same tax treatment as that granted to pre-competitive or university-based research.

Generally, only R & D expenses that are not eligible for tax purposes will be eligible for grants from the technological development fund, which will complement fiscal measures by subsidizing expenses upstream and downstream of the R & D in the catalyst project.

The Minister for Technology will announce shortly specific measures and criteria governing the selection of projects to be subsidized by the fund.

Budgetary measures

All Québec businesses must make greater use of new technologies, although small and medium-sized businesses have the greatest needs in this regard. To help companies meet this challenge, I am announcing that additional funds will be allocated to this sector.

Increased assistance to introduce new technologies in business

Three new measures will be added with respect to the transfer and dissemination of technology, and the initiation by small and medium-sized businesses of R & D projects. They will defray costs incurred to conduct analytical and strategic positioning studies related to technological progress, cover a portion of the costs incurred by small and medium-sized businesses to obtain advice on various facets of the implementation of technologies within the company, and facilitate the launching of R & D projects.

Assistance provided under the three initiatives will be consistent with the needs of each region ; it will total $ 3 200 000 in 1989-1990, and $ 10 500 000 in each subsequent year.

Innovation cannot be pursued unless experts are employed by businesses. Consequently, an additional $ 2 500 000 will be allocated to scientific jobs over the next three years.

The Centre de recherche industrielle du Québec plays a decisive role in disseminating technological development among small and medium-sized businesses. The government has already acknowledged CRIQ's role by increasing its budget by $ 2 500 000 in 1989-1990, to nearly $ 20 000 000. I am announcing that an additional $ 3 000 000 will be earmarked for the agency to carry out two major projects during the current fiscal year, i.e. a water purification pilot project and a computer-assisted manufacturing demonstration workshop.

Lastly, it is important to assist high-technology firms when they are about to market their innovations. The Société de développement industriel du Québec, under its research and innovation assistance program, will be able to finance this vital phase, for I am announcing that an additional $ 1 500 000 is being allocated to the SDI for this purpose in 1989-1990.

The budgetary measures I have just announced will add $ 39 200 000 over the next three years.

Public sector investment in R & D totals $ 3 000 000 000

Over the past three years, the government has adopted a veritable R & D strategy, centred on five interrelated methods of intervention, i.e. taxation as the foundation of the system, the technological development fund, Hydro-Québec's farming-out policy, risk-sharing loans granted by government agencies, and the expenditure programs of government departments and agencies. Over the next five years, the public sector in Québec will invest nearly $ 3 000 000 000 under this strategy.

C. Investing in financial resources: the role of financial institutions

To ensure harmonious development, businesses must seek sources of financing adapted to their needs. It is fortunate that, in recent years, the Québec financial sector has undergone remarkable development and can now fully assume this role. The vitality of Québec's financial institutions and innovative, responsive legislation have been largely responsible for this. Furthermore, the initiatives of the Minister for Finance and Privatization clearly indicate our determination to keep Québec in the vanguard in this field.

International financial centres

The introduction of measures designed to foster the establishment of international financial centres in Montréal has resulted, since 1987, in the certification of 14 centres. I will announce in the coming days approval of the certification of seven new centres, including front-ranking banks and brokerage firms. We are confident that, in so doing, we are bolstering Montréal's position as a hub for the growth of the Québec economy overall, and helping to make the city a focal point of international finance.

In the 1990s, the increasing globalization of financial markets will attract capital-rich competitors wishing to enter the Québec market. Under the circumstances, the government feels it appropriate to focus in particular on protecting Québec institutions and establishing in the province a core of shareholders capable of sustaining past achievements and elaborating winning strategies.

One group likely to participate in this growth is the Mouvement Desjardins and its constituent businesses and institutions. Since the turn of the century, these enterprises have made an invaluable contribution to Québec's economic development. To cope with the challenges of the future, take greater risks and make an even greater contribution, these organizations will have to maintain a solid, stable financial base, while preserving their cooperative structure.

Capitalization of savings and credit unions bolstered

For this reason, I am announcing today a measure designed to sustain the capitalization of savings and credit unions. Under this provision, taxpayers who have purchased permanent shares issued by these institutions will benefit from a 100 percent tax deduction when calculating their taxable income. This measure will be in effect for three years ; individual taxpayers will enjoy a $ 3 000 cumulative deduction, with an annual ceiling of $ 1 000. Over three years, this measure could generate $ 250 000 000 in additional funding for savings and credit unions, thus enabling them to more readily attain the new levels of capitalization demanded by Québec legislation.

D. Investing in entrepreneurship and venture capital

Of all the factors which contribute to the smooth running of the Québec economy, entrepreneurship is very likely the least deficient. Québec has no shortage of entrepreneurs with a taste for risk who are able to launch new products and ideas, and who wish to carve a place for themselves in the market.

With a view to encouraging entrepreneurs, our government endeavoured to create a favourable climate as soon as it took power. The results are highly encouraging. During the first three years of our mandate, nearly 100 000 companies were incorporated in Québec.

Although the favourable business climate engendered by our government contributed to this performance, it must be added that there was no dearth of concrete support measures. In 1986, for example, I introduced a three-year tax holiday for new small and medium-sized businesses.

Entrepreneurs must have at their disposal venture capital commensurate with the risks they are willing to take, otherwise their businesses will founder at the first setback. To assist them, the Québec government has decided to make it easier, through tax benefits, to raise venture capital.

QSSP modified

Various measures designed to facilitate the raising of venture capital are being closely monitored. In light of present economic conditions, businesses are reluctant to issue common shares because of sluggish markets. Investors are looking to financial instruments offering steadier rates of return. One category of securities likely to reconcile the objectives of investors and businesses consists of debentures and preferred shares convertible to common shares. For this reason, I am announcing that common shares resulting from the conversion of such securities will henceforth be eligible for inclusion in the QSSP when they are converted. Other provisions in the QSSP are being relaxed ; they are outlined in the appendix on fiscal and budgetary measures.

QBICs modified

Québec Business Investment Companies (QBICs) are the second vehicle for raising venture capital. Given the success of QBICs, it is now possible to broaden their scope to enable them to finance bigger projects and better guarantee their profitability. I am announcing that the ceiling on the eligible investment which a corporation may receive from one or more QBICs is being raised from $ 1 000 000 to $ 2 500 000. Moreover, the 20 percent ceiling on the income a taxpayer may deduct in a given year with respect to an investment in such a company is being raised to 30 percent. Until now, this financial instrument has been a decisive factor in fostering regional entrepreneurship. The measures I am announcing today will further enhance its role.

Government corporations also play a vital role in generating venture capital and channelling such capital to Québec entrepreneurs. The SDI has established a risk-sharing loan program designed to bolster the capitalization of participating businesses. Launched barely 18 months ago, the program has made possible the granting of 354 risk-sharing loans worth $ 265 000 000, covering projects valued at $ 1 000 000 000.

Government corporations to foster regional development

The Caisse de dépôt et placement du Québec has just set up three medium-sized venture capital companies in the Québec City, Mauricie — Bois-Francs and Estrie regions. At the Gaspésie — Îles-de-la-Madeleine economic summit, it announced that it planned to set up such a company in collaboration with the Mouvement Desjardins. Other government corporations such as the SGF, SOQUEM, SOQUIP, SOQUIA and REXFOR are investing substantial amounts of venture capital in their respective sectors.

Their initiatives, designed to maximize economic spinoff, are aimed at diversifying and strengthening Québec's industrial structure. REXFOR's involvement in the Témiscaming cardboard plant and in the pulp and paper plant in Matane, as well as the participation of SOQUIP in the Soligaz consortium are all revealing examples in this respect. The same applies to the SGF's involvement in the aluminum sector. We are proud of this approach to managing government corporations. Rather than financing deficit-ridden enterprises, we are using government corporations to invest in Québec's future.

E. Investing in regional vitality

Since December 1985, the Québec government has actively sought to provide greater support for regional vitality. A broad regional development policy has been adopted and a regional development plan of action has been announced.

The plan of action of the Minister responsible for Regional Development differs from the traditional approacn, which was often limited to creating facilities and infrastructures. Our government will focus on support for local and regional entrepreneurship, recognition by sectorial departments of special regional features, the signing of general development agreements with the regions, and particular measures with respect to regions in chronic difficulty.

As today's Budget clearly indicates, our government is unequivocally committed to regional development.

Regional entrepreneurship

Tax advantages broadened to encourage investment in the regions

At present, with a view to promoting regional entrepreneurship, a shareholder in a regional QBIC is allowed an additional deduction of 25 percent of his investment in the company. Other QBICs do not enjoy this advantage. To attract even more capital, the shareholders of any QBIC, regardless of origin, may take advantage of the additional 25 percent deduction on this type of investment, as soon as the QBIC invests in the region. I am also announcing that QBICs may henceforth invest not only in marine aquiculture firms, but also in freshwater aquiculture.

Additional deductions extended to cover mining exploration

Mining companies have difficulty obtaining venture capital, which is crucial to their success. Such businesses make extensive use of flowthrough shares to raise exploration capital. The favourable reception which greeted this procedure and its positive effect on the economies of regions such as Abitibi-Témiscamingue are unquestionable. For this reason, to ensure that flowthrough shares continue to represent an effective means of obtaining capital, I am announcing the extension through the 1990 taxation year of the additional 33 1/3 percent and 66 2/3 percent deductions for mining exploration costs incurred in Québec. The additional assistance granted to the industry will cost the government $ 22 000 000 over a full taxation year.

Blueberry-based alcoholic beverages exempted from the sales tax

To promote growth in another region, we must encourage the marketing of blueberry-based alcoholic beverages. Cider is currently exempted from the sales tax and retail duties. I am pleased to announce that, effective immediately, blueberry-based alcoholic beverages are also exempt from the sales tax.

Waterworks and sewer system assistance program

Additional $ 25 000 000 for waterworks and sewer systems

Too many small municipalities are having to cope with drinking water supply and waste water management problems. There is every reason to prolong the waterworks and sewer system assistance program (AIDA) launched last year. Consequently, I am announcing that an additional $ 25 000 000 will be allocated to the program ; financial assistance over five years will total $ 75 000 000.

Municipalities in the Îles-de-la-Madeleine are experiencing a vexing problem with respect to water supplies, attributable in particular to salt water rising under the water table. Our government must make a special contribution to essential, high-priority initiatives. Some $ 8 800 000 in special funds will be earmarked for the construction of drinking water wells and sewer systems in a number of Îles-de-la-Madeleine municipalities. This measure will contribute to the development of these municipalities and maintain public health.

Investments in the road and highway network

Additional $ 30 000 000 for the road and highway network

Demands to upgrade the Québec road and highway network come from all corners of the province. Obviously, these infrastructures are essential for economic development. Between 1987-1988 and 1989-1990, an additional $ 200 000 000 was invested in the road and highway network. However, the network is aging and the need for preventive and curative maintenance is obvious. We must focus on properly maintaining existing roads and highways. I am announcing that an additional $ 30 000 000 will be earmarked for infrastructure and roadbed maintenance. All regions of Québec will benefit from an improved road and highway system, a vital adjunct to sustained economic activity.

Investments in recreational facilities

Government subsidies covering recreational facilities often spark projects. The construction of facilities enhances social cohesiveness, and creates many jobs. Some $ 3 700 000 will be added to existing budgets allocated to upgrading provincial parks and reserves, and developing recreational facilities (PADEL). This additional assistance will encourage the poorest regions.

Atlantic salmon conservation

To conserve Atlantic salmon, the government must prohibit commercial fishing at various times. To ensure fairness, our government will establish a compensation and equipment buy-back plan to assist fishermen affected by the ban. The Minister for Fisheries will announce shortly details of this measure.

Forestry sector

$ 15 000 000 earmarked for reforestation and development in private and public forests

Québec's forests generate thousands of jobs throughout the province. More than 110 Québec municipalities rely solely on the processing of forest resources. Preserving this resource entails reforesting and developing public and private forests. For this reason, the ministère de l'Énergie et des Ressources will receive an additional $ 15 000 000 to develop public and private forests. This investment bodes well for the future, and will immediately create jobs.

$ 14 000 000 for forestry jobs

In 1987, we launched an experimental forestry employment program. The specialized manpower trained to carry out sylvicultural work contributed significantly to the industry. As announced during the Gaspésie — Îles-de-la-Madeleine and Bas-Saint-Laurent socioeconomic conferences, $ 14 000 000 will be earmarked for this special forestry job creation program, $ 3 500 000 of it in 1989-1990.

Job creation in the Gaspésie and Îles-de-la-Madeleine regions

Unemployment is higher in the Gaspésie and Îles-de-la-Madeleine regions than elsewhere in Québec, which warrants special government assistance. Under the job creation program set up in 1987, work has been carried out in strategic sectors in the region, thereby creating several hundred seasonal jobs. It is important to pursue these efforts. I am announcing that an additional $ 6 000 000 will be targeted for this program.

F. Investment : The role of the government

In addition to investing in regional development, the government has a role to play in investing in the future. Public sector investments enhance the welfare of individuals and foster economic development. Our government wishes to accord the private sector its rightful place, but maintain a high level of public investment, to satisfy the needs of Quebecers and the economy.

Sustained, brisk growth in public investment

In 1989, public sector investments will continue to grow rapidly, thus sustaining the strong growth initiated in 1988. Such investment increased by 18.6 percent last year, compared with 1987, and totalled $ 6 118 000 000. This high level should be surpassed in 1989, as public investment is expected to grow by 10.8 percent. Hydro-Québec and local government expenditures will result in extensive public capital expenditure.

Major Hydro-Québec projects totalling $ 47 000 000 000

Hydro-Québec investments will rise by 18 percent in 1989 ; the government corporation is entering a new expansion phase with regard to power generating facilities and will invest heavily in its power transmission and distribution systems. Over the next 10 years, Hydro-Québec will invest $ 47 000 000 000 in major projects, including more than $ 3 000 000 000 in 1990. Québec's economic vitality and the signing of major electricity export contracts have led the utility to step up its role as an economic development agent.

Hydroelectric power : a driving force in the economy

Our government, and the Prime Minister in particular, have done everything possible to ensure that hydroelectric power accelerates Québec's industrial growth. The aluminum industry is a prime example in this respect. The construction and expansion of facilities worth more than $ 4 000 000 000 are under way, thus shifting economic activity to the regions. Because of the rate structure adopted, which makes it possible to share risk with the companies concerned, we will be able to develop this industry and create 15 000 jobs during the construction phase, and 3 200 permanent jobs thereafter.

G. Controlling our future

We have begun to prepare for the 1990s. Our objectives with regard to job creation and economic growth reflect those which presided over our election platform. The methods of achieving these goals will be different, but they must be as effective as those which have prevailed over the past three years. The measures announced today are concrete evidence of this policy, which will enable the Québec economy to meet the challenges of the coming years.

II. Personal Income Tax and Measures to Support Families

When we took office, personal income tax was one of the first problems we tackled. Two weeks after coming to power, we announced the immediate introduction of lower personal income tax tables, the abolition of the sales tax on personnal insurance premiums, and a reduction in the fuel tax in outlying regions. We had dealt with the most urgent phase of the reform.

The problems to be remedied were even greater. The taxation system had to be tailored more specifically to economic growth. The tax burden had become too great and was no longer competitive with those in neighbouring regions. The taxation system clearly put low-income earners at a disadvantage and encouraged them to depend on social aid. The prevailing taxation system was unfair to several categories of taxpayers, especially families.

A more competitive taxation system focused on economic growth

Additional tax burden of Quebecers pared down to 2 percent

In 1985, the tax burden of individual Quebecers exceeded that of their Ontario counterparts by 10.5 percent. The tax reductions we have instituted since then and those announced in this Budget Speech will narrow this gap to only 2 percent in 1989.

The maximum marginal rate — the difference which put Québec at the greatest disadvantage — was reduced from 32 percent in 1985, to 24 percent in 1989. The discrepancy between Québec and Ontario was 10.1 percentage points in 1985, which has now been pared down to only 2.6 percentage points.

You will recall the resounding results announced in the last Budget Speech. The reform of the taxation system as it applies to individuals and families represents a gain for them of $ 605 000 000 in 1988, and $ 1 257 000 000 in 1989. The effects of these measures have been apparent to Québec taxpayers in bigger pay cheques since January of this year, and in the tax refunds they are receiving this spring. I would like to take advantage of this opportunity to stress the outstanding collaboration of the Minister of Revenue, who has simplified Québec income tax returns, and made possible the processing of $ 1 000 000 000 in tax refunds by early May.

$ 1 000 000 000 in tax refunds

Greater fairness for low-income earners

The old taxation system was unfair to low-income earners, especially families.

Under the system, social aid beneficiaries paid tax on benefits, which were reduced for each dollar of income earned. Such taxpayers saw their income and their social aid benefits reduced, and some heads of families worked for next to nothing while attempting to get back on an even keel.

Measures to help the needy

The first solution to the problem was to raise the income level at which tax is payable. We introduced a tax reduction for families, totalling $ 970 in 1989. In 1985, a two-parent family with two children paid tax on income of $ 10 015 or more ; the same family in 1989 is taxed on $ 21 894 or more.

The second measure involved improving assistance for low-income families, i.e. those whose earnings fell under the taxation threshold. The PWA program was set up, and monthly benefits were paid out starting last year. These benefits augment the disposable income of families in which the breadwinner is entering the labour market, thus making it more attractive for him to do so. Benefits may reach $ 2 778 a year for a two-parent family with two children and an income of $ 15 000.

The reform dwelt first and foremost on creating a financial incentive to enter the labour market. It was also necessary to give social aid beneficiaries the proper means of getting back on track. Consequently, the Minister of Manpower and Income Security launched a major reform of the social aid system, which will come into force on August 1, 1989.

Benefits for the mentally or physically handicapped, to whom our society owes more than the strict minimum, will increase substantially. The same applies to social aid beneficiaries under 30, who will receive the same benefits as those over 30. However, the most innovative aspect of the reform is the willingness to encourage all social aid beneficiaries who are capable of working to do so. This is the underlying philosophy of the new Employment Incentives Program (EI). An array of measures designed to smooth the transition to the labour market will be implemented and rounded out by the appropriate financial incentives. An additional $ 72 600 000 will be included in 1989-1990 Estimates for the eight months of operation of the program in the current fiscal year.

A. Additional support for families

The birth rate in Québec — at 1.4 children per woman, one of the lowest in the world — has become a source of serious concern in recent years.

Québec families, the wellspring of our collective future, clearly need adequate government financial support. In addition to the assistance for low-income families I have just outlined, we have made a concerted effort to introduce broader support for families.

In 1986, income required to cover the essential needs of dependent children was exempted from tax ; last year, these exemptions were converted into tax credits. We implemented a program of allowances for the birth of the first two children, quarterly allowances for the birth of subsequent children, and monthly allowances for children under six. Moreover, we completely abolished the tax-back of family allowances. We also made home ownership more accessible, and broadened the range and enhanced the quality of child care services.

Day care policy

Underlying principles maintained

In its latest budget, the federal government announced that it was withdrawing its child care services development assistance program, resulting in a $ 48 000 000 shortfall for Québec in 1989-1990, thus compelling the government to reassess its position. The Québec government is nonetheless determined to implement the essential elements of the policy on child care services made public in November 1988.

Two principles underlie the policy : the creation of 60 000 places and the financial consolidation of child care services. Both will be maintained. In 1989-1990, $ 9 000 000 will be earmarked for the creation of day care places. Some $ 19 000 000 will be allocated to the consolidation of the day care network and to increasing direct assistance to parents. These additional contributions will boost government financial assistance from $ 104 000 000 in 1988-1989 to $ 132 000 000 in 1989-1990, a 27 percent increase. This amount is less than the figure given in the Estimates, although we have made up for $ 32 000 000 of the $ 48 000 000 shortfall created by Ottawa.

Home ownership

We also intend to improve a series of measures adopted last year. Assistance centred on newborn children and on children under two, thus confirming the importance we attach to the decisive role Québec families will play in our future. We now feel it necessary to support families over the longer term.

Home ownership program improved

First, we must improve assistance to families with one child. To this end, we plan to broaden the home ownership program launched last year. This program is presently intended for families with two or more children. During the year, it proved satisfactory. Between May 12, 1988 and April 28, 1989, more than 4 500 families took advantage of the program and purchased a home, with an average value of nearly $ 64 000. To ensure that the program benefits all Québec families, I am announcing that houses worth up to $ 100 000 will be eligible for inclusion in the program and that families with one child that purchase a house after midnight tonight may also be eligible to participate in the program.

Increased allowances with respect to newborn children

Additional $ 500 allowance for a second child

I am also announcing that the amount already granted at the birth of a second child will be doubled. As of May 1, 1989, an additional $ 500 will be granted on the second child's first birthday, thus increasing financial assistance under this measure from $ 500 to $ 1 000.

Additional assistance for large families

Assistance for large families will also be increased. At present, $ 3 000 is paid with respect to third and subsequent children within two years of the children's birth, at the rate of $ 375 per quarter. I am announcing that, as of May 1, quarterly allowances applicable to third and subsequent children will climb from $ 3 000 to $ 4 500 and will be paid quarterly over three years. Through these three measures, the government will support Québec families in an even more decisive manner.

B. Indexation in 1990

Under the reforms the government has initiated, the EI and PWA programs have been linked. Consequently, the indexation of taxation must reflect the indexation of benefits paid under both programs. Otherwise, we would simply return to the situation prevailing prior to the reform and curtail the incentive to enter or return to the labour market.

I am therefore announcing that, for 1990, we will adopt an indexing formula which enables the taxation system we have implemented to continue to achieve its objectives.

Social transfers

4.9 percent increase in EI and PWA scales

First, I am pleased to announce that the scales of assistance granted under the EI and PWA programs will be indexed, thus increasing beneficiaries' disposable income by 4.9 percent on January 1, 1990. All needy households in which adults are able to work will receive benefits tied to the cost of living.

I would also like to point out that, under the reform of income security, benefits paid to people who are unable to work will rise by an average of nearly 20 percent between 1989 and 1990. We must ensure that the needy in our society enjoy life's basic necessities.

I am also announcing that, in the future, the PWA program will be amended so that benefits are paid from the time employment income reduces benefits under the EI program. For example, in the wake of these measures, the head of a single-parent family with annual employment income of $ 10 000 and with one dependent child will receive $ 1 458 in additional disposable income. In 1990, needy Québec households will receive a total of $ 62 000 000, including $ 54 000 000 for 235 000 social aid beneficiaries.

Tax credits

Family tax credits indexed by 4.9 percent

Second, I am announcing that basic family allowances and allowances with respect to young children will be indexed by 4.9 percent in 1990. We will also index the level of income on which families start to pay tax. The same indexation will apply to the ceiling on the deduction for child care expenses. In this way, we will prevent inflation from undermining the purchasing power of families.

Furthermore, to maintain the fairness and competitiveness of the personal income tax system, I am pleased to announce that, starting January 1, 1990, a number of personal tax credits will be indexed by 4.9 percent. This measure covers all tax credits for dependent children, the tax credit for single-parent families, the tax credit for other dependants, and the tax credit for people living alone.

The total cost of the indexation granted today is $ 216 000 000, of which $ 182 000 000 will go to families with children.

C. Registered Home Ownership Savings Plan

RHOSPs may be used to purchase furniture

The Registered Home Ownership Savings Plan lost much of its appeal when the federal government abolished it in 1985. However, a number of Quebecers still have funds in an RHOSP, on which financial institutions offer a poor return. I am announcing that funds accumulated in such plans may be used to purchase a home, or to purchase furniture between now and the end of 1989. Taxpayers will undoubtedly appreciate this measure, which will also be a shot in the arm for the furniture industry.

D. Impact of measures designed to improve the taxation system and enhance support for families

$ 260 000 000 more in taxpayers' pockets, 87 percent of it for families

During the last three years, promoting greater social justice and fairness for all has been very much at the forefront of our concerns when we have elaborated budgetary and fiscal policies. This concern is reflected in the measures which I have just announced. These measures will put an additional $ 260 000 000 in the pockets of Québec taxpayers. Of this amount, $ 226 000 000 will go to families, the largest single group of beneficiaries.

No new taxes for individuals

I am especially proud to point out that, despite current constraints, we are tabling a budget which does not include any new taxes for individuals.

$ 1 000 000 000 more support for families than in 1985

Substantial financial support has been generated by the array of tax measures and expenditures related to the family adopted in recent years. Such support totalled $ 814 000 000 in 1985 and will reach $ 1 790 000 000 in 1990, nearly $ 1 000 000 000 more.

A family with one child and employment income totalling $ 25 000 received $ 95 in Québec government assistance in 1985, and will receive $ 1 572 in 1990. A family with three children will receive $ 4 762 in 1990, compared with $ 880 in 1985.

A family with two children which paid tax on income of $ 10 015 or more in 1985 will be taxed on income of $ 23 234 or more in 1990. A family with two children and employment income totalling $ 40 000 paid $ 6 401 in tax in 1985, but will pay only $ 4 417 in 1990, a net gain of $ 1 984 or a reduction in taxes of nearly one third.

Substantial changes in the taxation and income security systems in recent years are one of our government's most outstanding achievements. Such changes will enable Quebecers to face the 1990s confidently.

III. Québec's Most Pressing Needs

A. The quality of the environment

Economic development and the environment inextricably linked

Our government has resolutely set out to achieve durable economic development, while respecting the environment, our most vital resource and one which greatly affects our potential for economic growth and our ability to live in good health. It is of the utmost importance that we invest in this resource. Major financial decisions taken throughout our mandate clearly demonstrate our resolve in this respect.

$ 5 300 000 000 earmarked for water purification

The government has already earmarked substantial investments for water purification in urban areas. By November 30, 1988, some $ 5 300 000 000 had been committed to the water purification program. Debt service with respect to this program rose from $ 110 000 000 in 1985-1986 to $ 303 000 000 in 1989-1990. At present, more than 600 municipalities are engaged in treating waste water ; the number is growing all the time.

$ 400 000 000 allocated to rural programs

These efforts will intensify in the coming years. Draft agreements covering more than 120 municipalities should be signed shortly, involving an additional $ 700 000 000. The manure management program implemented last year will require nearly $ 400 000 000 in expenditures over the next 10 years.

$ 12 700 000 in additional funds

Vigorous measures must be adopted with respect to the industrial sector to ensure that Quebecers benefit fully from the enormous investments in the urban and rural programs. I am therefore announcing that the ministère de l'Environnement will receive $ 2 000 000 a year in addition to the funds already allocated to its industrial waste reduction program, whose goal it is to encourage businesses to invest some $ 2 000 000 000 to reduce industrial pollution by 75 percent over 10 years.

Few solutions currently exist to eliminate hazardous wastes generated in Québec. Some of these wastes must be shipped outside Québec for processing because there are no adequate facilities here to deal with them. The government will earmark $ 10 100 000, including $ 8 100 000 in 1989-1990 to eliminate PCBs and other wastes stored in Saint-Basile-le-Grand and Shawinigan-Sud.

Fighting pollution also means being in a position to conduct proper inspections, investigations and follow-up. It is important to enhance the ability of the ministère de l'Environnement to intervene in this regard. To this end, I am announcing that $ 2 400 000 will be added to the department's appropriations annually.

The government manages some 200 dams and other hydraulic facilities designed mainly to regulate the flow of several rivers. To upgrade these facilities, the government, in collaboration with the Société immobilière du Québec, will launch a program worth $ 37 000 000 in the coming years, including $ 24 000 000 in the next three years.

30 percent a year increase in environmental budgets

The measures I have just described, in addition to those that have already been implemented, clearly indicate how important the quality of the environment is to the government. In 1989-1990, the budget of the ministère de l'Environnement will total $ 428 600 000, an average annual increase of 30 percent since 1985-1986.

B. Health and social services

Additional $ 660 000 000 for health and social services in 1989-1990

Our government deems health and social services to be of the utmost importance. In the 1989-1990 Estimates, the budgets of the ministère de la Santé et des Services sociaux and the Régie de l'assurance-maladie have been increased by $ 660 000 000, to $ 10 331 000 000, which accounts for 36 percent of growth in government spending.

Since then, the Minister of Health and Social Services has published a policy statement outlining government initiatives in this realm in the coming years. Needs in this area are enormous, and in light of an aging population, they will be increasingly costly to provide in the future. The challenge facing us is to manage growing needs even more efficiently. To this end, we will rely not only on clearer policies, but on the broader involvement of all Quebecers. We plan to adopt, at the regional level, an administrative and decision-making structure which makes it possible to offer services better adapted to the needs of each region.

Additional $ 15 000 000, including $ 8 000 000 for specialized medical services

A number of pressing needs must be satisfied immediately, and we are prepared to provide additional funds in this high-priority sector. In 1989-1990, the health and social services sector will receive an additional budget package totalling $ 15 000 000, of which $ 8 000 000 will be earmarked for growing needs for specialized medical services, especially in the field of cardiology. Moreover, some groups of Quebecers have special needs and we must assist them. The handicapped are an example. To enable these people to live peacefully in their communities, the Office des personnes handicapées du Québec will receive an additional $ 3 000 000 to boost assistance allowing the handicapped to live at home. I am also announcing additional assistance to youth shelters totalling $ 1 200 000, and $ 2 000 000 to improve youth protection services. Some $ 800 000 will be granted to community groups and agencies.

We must make health services more accessible to Quebecers living in outlying regions. We have adopted a policy to further develop medical and hospital services in the regions, although it does not presently cover a number of highly specialized services. To assist Quebecers who must travel to receive such services, I am announcing that all of their transportation and living expenses will henceforth be deductible, not just the portion exceeding 3 percent of income.

C. Québec culture

The government's spending policy is clearly geared to supporting Québec culture. New initiatives launched in this sector are worth $ 24 700 000 this year.

We have strongly supported the Québec film industry by increasing from 100 percent to 166 2/3 percent the tax deduction granted to Québec film productions. At present, this rapidly growing tax deduction will be worth more than $ 30 000 000 in 1989. I would like to point out that it is essential for public funding to be deployed where necessary. I wish to ensure that such funds do indeed offset the higher risks inherent in this type of production and I have asked staff in my department to closely monitor this program.

Ministère des Affaires culturelles receives an additional $ 9 600 000

Our government wishes to further support Québec culture and to this end is prepared to adequately support those involved in it. I am announcing that the budget of the ministère des Affaires culturelles will again be increased by $ 9 600 000 in 1989-1990, over the figure announced in the Estimates. The funds will mainly be earmarked for the young artists assistance program, and various cultural projects. Moreover, I am pleased to indicate that the government's contribution to the Centre de production cinématographique de Montréal will total $ 1 600 000 in 1989-1990.

Taking into account the additional funds, the budget of the ministère des Affaires culturelles will reach $ 244 800 000 in 1989-1990, compared with $ 175 200 000 in 1986-1987, which represents annual growth of 11.7 percent. This clearly demonstrates our desire to develop Québec's culture and our willingness to respect our commitments.

$ 5 000 000 earmarked for the recruitment and selection of immigrants

To fully develop Québec culture, it is important that our policies respecting immigrants enable the latter to fully integrate into Québec society. The 1989-1990 Estimates already included $ 7 500 000 to welcome immigrants and provide them with French-language courses. I want to do more. An additional $ 5 000 000 will be allocated over the next three years to accelerate the recruitment and selection of immigrants in Québec government offices abroad.

IV. Financial Framework

When we came to power, the high rate of taxation and poor state of the economy were obvious problems for Québec. The state of public finances, however, was not as readily perceptible.

Having consulted the data available on this matter, I published a pre-budgetary document entitled "The Need for Immediate Action" in March 1986. This study showed that, like the tax system, all the main budgetary categories were plagued by serious problems : federal transfers were stagnating, public spending was ballooning and the government's financial framework was out of kilter. The task before us was enormous. However, we set realistic goals and have been successful in attaining them.

A. Impact of federal policies on the financial framework

The rectifying of Québec's public finances is even more remarkable in that it was accomplished in a context where several federal government measures were unfavourable to the less affluent provinces and, in particular, to Québec. In short, these measures involved the casting off of certain joint responsibilities as well as increased penetration of various taxation fields, and were marked by limited regard for growing regional disparities and a lack of consultation with the provinces. The recent federal budget is in keeping with and will undoubtedly accentuate these trends.

The Constitution Act, 1982, entrusts the federal government and the provinces with the responsibility of reducing regional disparities and ensuring equal opportunity in Canada.

However, one may well wonder what the significance of this commitment is. Disparities between the regions have not been reduced in recent years. To the contrary, in some respects they have been exacerbated. Since 1981, job creation has been more sluggish in the seven provinces receiving equalization payments.

A number of regions are experiencing inflationary pressures attributable to the full employment of their resources. To remedy this situation, the Bank of Canada is maintaining high interest rates, which penalize the less affluent provinces. The latter are unable to fully develop their economic potential ; they are also more vulnerable to rising interest rates because of their debt loads.

Federal budget policy could rectify this situation, but it is not doing so. Recent data indicate that federal expenditures increased more slowly in the less affluent provinces, that is, in those which receive equalization payments. The budgetary policy therefore accentuates the negative impact of the recent hikes in interest rates on these provinces. This applies to several categories of expenditures, in particular transfer payments to the provinces.

Far from remedying the situation, the recent federal Budget Speech continues in the same vein. Its financial and economic repercussions will reduce Québec's margin of manoeuvre by over $ 1 300 000 000 in the next three years. It will lead to additional cutbacks in established programs financing (EPF), which will in turn cancel out its financial contribution to health and post-secondary education starting in 1997-1998.

Moreover, it makes no provision to compensate the less affluent provinces. An equal per capita reduction such as that under EPF is very serious since, even after equalization, the capacity of eligible provinces to levy taxes is lower than that of the other provinces. Therefore, to offset the federal government's withdrawal, the less prosperous provinces must increase their tax burden more than the others. In Québec, for example, the cutbacks in the financing of established programs will increase the tax burden by $ 136 000 000 more than in Ontario in 1991-1992 alone.

The federal plan to occupy over the retail sales tax field, starting in 1991, poses another threat to the provinces' ability to fully exercise their constitutional powers. It is totally unacceptable that such a major change in the effective distribution of taxation fields between the federal and provincial governments be carried out unilaterally and at a time when the federal government is withdrawing from sectors as important as health, post-secondary education and regional development.

The federal government's abandonment of the national child care strategy clearly illustrates how incoherent its intervention is. Ottawa adopted legislation which did not take into account its own or the provinces' ability to offer services, then withdrew, leaving the provinces to satisfy the expectations of their residents.

The recent federal budget is particularly evasive in regard to regional development. The substantial reductions in appropriations since the early 1980s are a contradiction of the federal role of promoting equal opportunity in Canada. The Canada-Québec subsidiary agreements respecting regional development expire in March 1990. The federal government must commit itself to offering Québec sufficient funds to at least maintain at current levels the activities supported by these agreements, as stipulated in the June 1988 draft agreement.

The federal and provincial governments should be able to jointly define policies to be adopted with respect to taxation and spending. It is obvious that, over the next few years, federalism will have to respond to a number of major challenges. Keener international competition makes it imperative that each region in this country contribute to strengthening the Canadian economy.

We must work together to define the means of putting into practice the principles of the Constitution.

I intend to discuss all the financial aspects of these questions with my colleagues in the federal government and the other provinces during the consultations on the renewal of the fiscal arrangements. However, since the basic principles themselves are at stake, Québec will request that the question of the economy also be brought up at the next First Ministers Conference.

Surtax on businesses

In the meantime, we have to offset the most recent federal budget's negative effects on the Québec government's finances. I am announcing that the surtax on corporation taxes will be raised. The rate of the tax on the profits of small businesses will increase from 3.22 percent to 3.36 percent, and that on the profits of large businesses, from 5.90 percent to 6.16 percent. The rate of the employers' contribution to the health services fund will rise from 3.22 percent to 3.36 percent. The rate of the tax on the capital of companies will be increased from 0.48 percent to 0.50 percent. In 1989-1990, the surtax will generate $ 138 000 000 in revenue.

Corporate taxes still competitive

Companies will thus help cushion the blow of the federal budget. However, the taxation system remains highly competitive in relation to those of neighbouring provinces and states. Staff in my department asked a specialized firm to conduct a comparative study, the findings of which are contained in an appendix ; it has been updated to take into account the surtax. The study reveals that Québec's taxation system is one of the most advantageous for businesses.

B. Spending policy

Spending rigourously controlled

To keep our tax system competitive in the face of stagnating federal transfers, we have had to manage government expenditure very rigorously. The alternative would have been to increase the deficit, but this would have replaced current taxes with future taxes, and, because of higher interest costs, jeopardized our future.

The Estimates announced for 1989-1990 show that such a highly disciplined approach is still justified. They provide for a 5.8 percent increase in spending over 1988-1989. The additional expenditures announced today will push this growth rate up to 5.9 percent. Our government has maintained an average expenditure increase of 5 percent over the past four fiscal years, a figure that barely exceeds the 4.4 percent rate of inflation over that period. During the nine years prior to our coming to power, the growth rate of spending was 2.8 percent higher than inflation. If it had continued to climb at this rate, we would have recorded expenditures of $ 36 000 000 000 in 1989-1990, an increase of nearly $ 2 800 000 000 over the current estimate. It would then have been impossible to reduce the deficit as well as the tax burden of Quebecers.

This control of expenditure is all the more remarkable in that it was achieved while we continued to inject substantial sums into the economy to meet the needs of the population. I would like to congratulate my colleague, the Chairman of the Conseil du trésor, for his unflagging efforts to manage spending more efficiently.

To this end, we had to monitor cost increases. The compensation policy that we have pursued and will continue to pursue during the current collective agreement negotiations is a key facet of this management strategy. It is designed to achieve equity between the overall remuneration of public service employees and those of the private sector.

Since the start of the economic upturn, the principal wage settlements in the private sector have been below the rate of inflation by an average of 0.6 percent a year. With wage scales set to keep pace with inflation, Québec public sector employees have been able to maintain and even improve their relative position. Government offers have once again been brought into line with inflation and should therefore maintain the balance achieved. At the same time, they will ensure a level of expenditure that is compatible with Quebecers' ability to pay.

Rigorous control over costs and enhanced efficiency have freed substantial funds for new initiatives in all areas of government.

Expenditure outpaces inflation by only 1 percent

Government expenditure in 1989-1990 will encompass numerous new spending programs, while limiting spending growth to only 1 percent above inflation. Our objective was to meet Quebecers' needs without increasing the size of the public sector. Disciplined management and a more efficient administrative structure have enabled us to rise to the challenge.

C. Preliminary results for 1988-1989

Preliminary results in line with 1988-1989 forecasts

Our spending policies since the beginning of our mandate have borne fruit ; all financial indicators bear witness to the remarkable improvement in the government's financial position.

Let us first look at the results of the fiscal year just ended. In the last Budget Speech, we forecast that the budget deficit would reach $ 1 600 000 000 in 1988-1989 and preliminary results confirm this figure.

FINANCIAL TRANSACTIONS [1]
SUMMARY
(in millions of dollars)

	1987-1988	1988-1989 [2]		
		Budget Speech 1988-05-12	Preliminary results [1]	Change
1. Budgetary transactions				
Revenue	28 144.9	29 164.0 [2]	29 802.0 [2]	638.0
Expenditure	– 30 519.1	– 30 764.0 [2]	– 31 402.0 [2]	– 638.0
Deficit	**– 2 374.2**	**– 1 600.0**	**– 1 600.0**	**—**
2. Non-budgetary transactions				
Investments, loans and advances	– 680.3	– 767.0	– 672.0	95.0
Retirement plans account	2 203.0	1 241.0	1 634.0	393.0
Provision for financing the water purification program	12.2	14.0	15.0	1.0
Other accounts	– 539.8	132.0	– 340.0	– 472.0
Balance	**995.1**	**620.0**	**637.0**	**17.0**
3. Net financial requirements	– 1 379.1	– 980.0	– 963.0	17.0
4. Financing				
Change in cash position	173.2	—	21.0	21.0
Change in long-term debt	1 205.9	980.0	942.0	– 38.0
Total	**1 379.1**	**980.0**	**963.0**	**– 17.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 According to the budgetary and financial structure in force during fiscal 1989-1990. Data have been adjusted for comparison purposes to take account of the fact that the family allowances paid by the government have been entered as a deduction under revenue rather than under expenditure since January 1, 1989.

2 According to the budgetary and financial structure in force in 1988-1989, preliminary results indicate that revenue totalled $ 29 972 000 000 and expenditure $ 31 572 000 000 ; the corresponding figures in the Budget Speech were $ 29 334 000 000 and $ 30 934 000 000, respectively. For the period April 1 to December 31, 1988, family allowances, in the amount of $ 170 million, were still entered under expenditure rather than as a deduction under revenue (see the appendix entitled "Government's Financial Position and Borrowings in the Public Sector").

For the third consecutive year the government has met the spending objectives it set at the beginning of the year. Revenue was higher than anticipated. In light of the uncertainty we are facing, the government recorded in 1988-1989 additional expenditures it normally could have assumed in 1989-1990.

Moreover, net financial requirements, which totalled $ 963 000 000, were $ 17 000 000 lower than forecast in the last Budget Speech.

D. 1989-1990 and subsequent years

Let us now turn to the 1989-1990 financial framework. At present, most OECD countries are tightening their monetary policy, in anticipation of a rise in inflation. Over the coming years, growth should be fairly moderate, particularly in Canada.

Both the monetary and fiscal policies of the federal government are restrictive. The Canadian economy will feel the effects of continually high interest rates, heavier income taxes and other taxes, and slow growth in government spending.

Under the circumstances, growth in budgetary revenue will continue to fall below growth in GDP over the next three years. The impact of the substantial tax reductions granted last year and this year, and near stagnation in federal transfers, will reinforce this trend.

Spending must therefore be managed rigorously. The growth rate of expenditure, even taking into account the additional expenditures announced today, will reach 5.9 percent in 1989-1990, and should be reduced in subsequent years. The objective is ambitious, but it is prerequisite for maintaining a competitive taxation system, essential to Québec's development.

Deficit reduced to $ 1 500 000 000 in 1989-1990

In 1989-1990, today's Budget will enable us to attain the objective we set in last May's Budget Speech of reducing the budget deficit to $ 1 500 000 000. We have managed to reduce the deficit in each of the years we have been in power. The deficit will have fallen from $ 3 344 000 000 in 1985-1986 to $ 1 500 000 000 this year, a reduction of $ 1 844 000 000 over four years, i.e. by more than half.

FINANCIAL TRANSACTIONS 1989-1990
SUMMARY
(in millions of dollars)

1. Budgetary transactions		
Revenue	31 018	
Expenditure	– 32 518	
Deficit		**– 1 500**
2. Non-budgetary transactions		
Investments, loans and advances	– 740	
Retirement plans account	1 370	
Provision for financing the water purification program	– 2	
Others accounts	122	
Balance		**750**
3. Net financial requirements		**– 750**
4. Financing		
Change in cash position	—	
Change in long-term debt	750	
Total financing		**750**

Gradual reduction of the deficit by 1991-1992

We have no intention of stopping there. We must continue to put our public finances in order. However, because the Canadian economy is expected to slow down during the coming year, I propose reducing the deficit more gradually. In 1990-1991, the deficit should reach $ 1 475 000 000, and $ 1 450 000 000 the following year.

Substantial reduction in net financial requirements

The improvement in net financial requirements recorded since we came to power is spectacular : they totalled $ 1 740 000 000 in 1985-1986, and should total $ 750 000 000 this year, then drop to $ 450 000 000 in 1990-1991, and $ 150 000 000 in 1991-1992, their lowest level in nearly 20 years.

Improvement in the current account balance

The current account balance has also improved appreciably. I have already mentioned our objective of achieving a balanced current account so that we will have to borrow only to finance our capital expenditures. Over the past fiscal year, we have succeeded in decreasing the current account balance to a mere $ 233 000 000 and will strive to reduce it further in the future.

Improved debt/GDP ratio

The evolution of the debt is also very encouraging. It represents a steadily declining share of the gross domestic product (GDP). This performance is worthy of mention since the ratio of the debt to GDP had grown steadily since the mid-1970s. The fact that we were able to stop, and even reverse, the upward movement of this financial indicator offers eloquent testimony to the government's efficient management of public finances since the beginning of its mandate.

Let us now turn to the consequences of the debt, that is, interest costs. It is easy to forget that when a government runs up a deficit, there is no magic solution. The excess of expenditure over income has to be financed, a situation which generates additional interest costs over subsequent years. As the deficit builds up, interest costs swell, and the government has to devote a growing share of its budgetary revenue to these costs. This is what has happened in Québec since the middle of the 1970s. In 1976-1977, the government devoted slightly more than 5 percent of its revenue to interest on the debt. By 1985-1986, it devoted 14 percent.

If we had not cut the deficit over the past three years, this percentage would have continued to rise. However, we have managed to reduce it to 12.9 percent over the past fiscal year. Nevertheless, our efforts have been countered by high interest rates over the past year. This demonstrates to what extent a high debt limits government action and prevents the government from devoting all the resources it would like to satisfying the needs of the population.

The Budget tabled today will allow us to continue pursuing, albeit more slowly, our efforts to improve the financial situation. Changes in federal government policies and a brighter economic outlook would inevitably help to accelerate the process. Although I will spare no effort to bring about these changes, we would be wise not to take them for granted.

Conclusion

When we came to power, the economy was just beginning to recover from the 1981-1982 recession. The deficit was growing dramatically, the personal and corporate tax burden was no longer competitive, expenditures were totally out of line with the resources at our disposal and government corporations were piling up deficits.

Over the past three years, we have been able to put Québec's finances in order and bring about a tremendous improvement in the economy. The results for last year and the outlook for the coming year bear witness to the scope of the turnaround. The budgetary deficit has been reduced by more than half, net financial requirements diminished by nearly two thirds, and the tax burden is once again competitive and conducive to economic growth. A total of 233 000 jobs have been created in Québec over the past three years, the unemployment rate is at its lowest level since 1976 and, as in other major industrialized countries, investments now account for nearly 20 percent of GDP.

Now that we have rectified Québec's public finances, we are ready to respond to the challenges of the future. We would be unable to mobilize the human, financial or entrepreneurial resources required to take our rightful place in the new international economic framework if we were heavily in debt and the economy was excessively taxed. When public finances are out of balance, both social and economic development are difficult to achieve.

This Budget Speech clearly illustrates what may be achieved by putting public finances in order.

We have been able to come to grips with a less favourable economic situation and survive the blow dealt by the federal budget without paralyzing government action.

Even with more limited means, we have been able to adopt concrete measures within the framework of a forward-looking economic policy, support families in a practical manner, and make provision for the most needy members of our society while allocating substantial sums to such key sectors as the environment, health, culture, and regional development throughout Québec.

Over the years to come, Quebecers will be faced with a formidable challenge with regard to both the economy and the public sector. To meet the needs of the population in regard to high-quality public services while maximizing economic growth, we will have to mobilize all our energies as well as those of our partners. As we have seen, the federal government has an extremely important role to play in this regard. Québec will not be able to develop as rapidly as in the past if federal policies fail to support its efforts and prevent it from maintaining a competitive taxation system. In addition, we must continue to manage the public sector efficiently in order to maintain the balance between economic growth and the provision of services to which the population is entitled.

I am confident, however, that Quebecers will be able to rise to this challenge. By taking full advantage of the improved financial framework and the development objectives set by their government, all Quebecers, together, will create an economically and socially advanced society.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
1989-1990 FORECAST
(in millions of dollars)

1. Income and property taxes	
Personal income tax	10 067
Employer contributions to health services fund	2 437
Corporate taxes [1]	1 711
	14 215
2. Commodity taxes	
Retail sales	4 557
Fuel	1 265
Tobacco	507
Meals and hotels	470
Other [2]	171
	6 970
3. Duties and permits	
Motor vehicles	386
Alcoholic beverages	62
Natural resources [3]	136
Pari-mutuel	23
Other	126
	733
4. Miscellaneous	
Sales of goods and services	253
Interest	374
Fines, confiscations and recoveries	261
	888
5. Revenue from government corporations [4]	
Société des alcools du Québec	398
Loto-Québec	445
Hydro-Québec	640
Other government corporations	167
	1 650
Total own-source revenue	**24 456**
6. Government of Canada transfers	
Equalization	3 392
Other transfers related to fiscal arrangements	1 666
Contributions to welfare programs	1 116
Other programs	388
Total Government of Canada transfers	**6 562**
Total budgetary revenue	**31 018**

1 Includes tax on corporate profits, tax on capital and corresponding tax on premiums for insurance companies.

2 Includes tax on telecommunications and on electronic advertising.

3 Includes forest, mining and water resources.

4 Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which is consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
1989-1990 FORECAST
(in millions of dollars)

Budgetary expenditure by department :	
Affaires culturelles	234.4
Affaires internationales	92.9
Affaires municipales	639.5
Agriculture, Pêcheries et Alimentation	615.7
Approvisionnement et Services	62.6
Assemblée nationale	66.4
Communautés culturelles et Immigration	46.0
Communications	118.5
Conseil du trésor	20.8
Conseil exécutif	99.2
Éducation	5 402.6
Énergie et Ressources	521.5
Enseignement supérieur et Science	2 899.9
Environnement	416.2
Finances	3 316.5
Industrie, Commerce et Technologie	350.0
Justice	402.4
Loisir, Chasse et Pêche	215.4
Main-d'oeuvre et Sécurité du revenu	2 647.7
Office de planification et de développement du Québec	68.9
Organisme relevant de la ministre déléguée à la Condition féminine	151.9
Organismes relevant du ministre délégué à l'Administration	1 265.4
Organismes relevant du ministre responsable de la Charte de la langue française	35.3
Personnes désignées par l'Assemblée nationale	30.6
Régie de l'assurance-maladie du Québec	2 217.2
Revenu	304.8
Santé et Services sociaux	8 114.3
Sécurité publique	716.0
Tourisme	80.4
Transports	1 869.3
Travail	98.5
Provision for bad debts	66.0
Total	**33 186.8**
Less : • net lapsed appropriations	325.0
• change in the provision for losses on investments in shares	104.8
Total expenditure announced in the Estimates	**32 757.0**
Plus : • additional measures announced in the Budget	193.4
• revision of economic parameters and impact of the federal budget	47.0
Less : • impact of pre-recording additional expenditure in 1988-1989 over and above what was announced in the Estimates	282.0
• net additional lapsed appropriations	197.4
Total probable expenditure	**32 518.0**

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
1989-1990 FORECAST
(in millions of dollars)

1. Investments, loans and advances		
Enterprises of the gouvernement du Québec		
Share capital and invested capital :		
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 49.6	
Société générale de financement du Québec (SGF)	–	
Société québécoise d'exploration minière (SOQUEM)	–	
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	–	
Société québécoise d'initiatives pétrolières (SOQUIP)	–	
Other	– 22.5	
		– 72.1
Change in equity value of investments in shares		– 563.3
Loans and advances :		
Société immobilière du Québec (SIQ)	63.0	
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 15.5	
Société de développement industriel du Québec	– 88.6	
Other	– 28.8	
		– 69.9
Total enterprises of the gouvernement du Québec		– 705.3
Individuals, corporations and others		– 37.2
Municipalities and municipal agencies		2.5
Total investments, loans and advances		– 740.0
2. Retirement plans account		
Employer and employee contributions	2 146.0	
Benefits and other payments	– 776.0	
Total retirement plans account		1 370.0
3. Provision for financing the water purification program		– 2.0
4. Other accounts		122.0
Non-budgetary transactions balance		**750.0**

Note : A negative amount indicates a financial requirement and a positive amount, a source of financing.

GOUVERNEMENT DU QUÉBEC
FINANCING
1989-1990 FORECAST
(in millions of dollars)

1. Change in cash position		—
2. Change in long-term debt		
New borrowings	2 115.0	
Change in debt resulting from amortization of foreign exchange	– 5.0	
Repayment of borrowings	– 1 360.0	
Total change in long-term debt		750.0
Total financing		**750.0**

Note : A negative amount indicates a financial requirement and a positive amount, a source of financing.

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1. A forward-looking economic policy

1.1 Investment in human capital

Higher education and university research

Increased financial assistance to universities

$ 66 000 000 for universities

Some universities are experiencing budgetary difficulties which threaten to have an adverse effect on the quality of teaching and research and to reduce their contribution to Québec's economic growth. This situation is in part the result of an inadequate distribution of funding among universities.

The government will therefore allocate $ 19 000 000 to certain universities which are not well served by the current allotment of funding and whose needs are most pressing. This should ease short-term financial pressures and encourage more orderly development of the universities.

Training focused on excellence and the needs of the economy

As international competition increases, Québec's economy must perform more efficiently and adapt to world markets. From this perspective, the role of the universities is to train skilled workers and researchers who can fill the needs of the economy. The government believes that increasing the quantity and quality of specialized university graduates will contribute to our economy's competitiveness.

An additional $ 15 000 000 will be allocated to increase university funding. The Minister of Higher Education and Science will announce the details of the allotment needed to achieve these objectives.

Assistance for university research

Scientific research is crucial to the strategy for strengthening Québec's economy. The participation of the universities in such research is important. Scientific research grants will therefore be increased by $ 32 000 000 for the 1989-1990 academic year.

Of this amount, $ 21 000 000 will be allocated for indirect research costs. Research funding by federal and provincial organizations does not cover the indirect costs to the universities in terms of utilization of space and administrative support. The current funding formula makes no allowance for variation in these costs among universities.

To ensure that universities are able to acquire adequate scientific equipment, $ 5 000 000 will be included for the 1989-1990 academic year in the next five-year investment plan.

Finally, with the same objective of encouraging the development of scientific research in universities and related institutions, the fund for training researchers and for assisting research will be increased by $ 6 000 000. Of this amount, $ 4 000 000 will be provided for assistance to new researchers and for research teams, while the scholarship fund for post-graduate students will be increased by the remaining $ 2 000 000.

FINANCING PLAN FOR HIGHER EDUCATION AND UNIVERSITY RESEARCH
IMPACT IN 1989-1990
(in millions of dollars)

	Academic year	Fiscal year
Improvement of the financial situation	19.0	15.5
Training focused on excellence and economic requirements	15.0	12.3
Assistance for research		
☐ Indirect research costs	21.0	17.2
☐ Scientific equipment	5.0	—
☐ FCAR fund	6.0	4.8
Subtotal	32.0	22.0
Total	**66.0**	**49.8**
Less :		
☐ Provision included in estimates	15.0	12.3
☐ Amount allocated for investment plan	5.0	—
Subtotal	20.0	12.3
Impact on budget	**46.0**	**37.5**

Student job creation

$ 1 000 000 more for student employment

Each year, Québec government departments and organizations provide an opportunity for many students to acquire a rewarding work experience. In 1989-1990, the government will add $ 1 000 000 to the appropriations of the ministère de l'Industrie, du Commerce et de la Technologie for job creation.

1.2 Investment in new technology

As a result of the globalization of markets, Québec's economic growth and the competitiveness of the private sector are increasingly dependent on the ability to innovate, and use new technologies available elsewhere. Québec has therefore adopted an integrated investment, research and development strategy.

The government provides support for research and development mainly through the tax system. At the same time, it recognizes the need to use other means to promote large-scale research and development projects involving businesses and universities. This approach should help to increase the ability of Québec's economy to compete.

The measures introduced today are consistent with the initiatives taken over the past few years to foster economic growth and job creation. They seek to promote the competitiveness of Québec businesses by stimulating research and development and the adoption of new technologies to enable Québec's economy to meet the challenges of the 1990s.

In order to make information on research and development measures more accessible and to communicate the government's strategy to all those involved in this sector, a separate document, "Government Strategy in Support of Research and Development in Businesses", is included as Appendix E of the Budget Speech.

Technological development fund (TDF)

$ 300 000 000 for the TDF

At the Québec technology summit, it was announced that a fund for technological development would be created to complement tax measures. The technological development fund (TDF) is constituted for $ 300 000 000 over the five fiscal years beginning in 1989-1990.

The fund's resources will be focused primarily on stimulating and supporting catalyst projects involving the business and research communities in large-scale technological projects, which must be initiated by industrial partners. These projects will lead to the development, adaptation and proving-up of new marketable products or processes.

Catalyst projects

Substantial assistance for catalyst projects

Catalyst projects are of strategic importance for Québec's economy and will be of significant benefit not only to the businesses directly involved but also to those working in other sectors. Catalyst projects will exhibit the following features.

— ***Features of catalyst projects***

– *Partnership*

A catalyst project must include several independent businesses working in the same industry or having a commercial or technological liaison with other sectors and with the research community, including universities, colleges, research centres and public laboratories. The partners then agree on the need for close collaboration to achieve a project's anticipated results.

– *Business leadership*

A catalyst project must be sponsored by industrial partners. Government departments and agencies may encourage partners to combine their efforts, but the leadership in setting objectives and directing a project must be assumed by the businesses involved.

In addition, these businesses must demonstrate their ability to collaborate with each other and with the research community. The subsequent involvement of other partners in Québec, and even from outside Québec, may be contemplated.

– *Participation*

A catalyst project must be supported by a significant contribution, be it financial, or in goods, services or personnel, from the businesses and the research community. The government is ready to support projects which would not be completed without government assistance and which, in view of their size and the collaboration involved, are not eligible for other regular programs of the Québec government.

Catalyst projects must also constitute a definite additional research and technological development effort by the participating businesses and generate a sustained increase in the industrial research investment of these businesses, beyond the life of the projects.

– *Technological progress*

A catalyst project must propose a technological solution which will constitute a real advance over existing operating or production methods in the industry and which will provide businesses with a decisive technological capacity in the market.

– *Structural economic impact*

A catalyst project must apply significant resources to achieve objectives which would be beyond the capabilities of an individual partner and which are of strategic importance to Québec's economy. The overall project must take place in Québec, although a portion may be carried out outside Québec when a contribution from partners in other jurisdictions is involved. A project may include research, technology transfer, product or process development and marketing, whose achievement will have a broader impact on Québec's industrial performance.

– *Operational structure*

A catalyst project must have clear objectives. It must specify a main decision-making and management centre. It must provide for the distribution of tasks and responsibilities and set out a timetable for completion. The documentation filed when the project is submitted must specify the legal form and economic organization of the relations between the participants, as well as their rights and obligations.

— Extension of 40 % tax credit for catalyst projects

40 % tax credit for catalyst projects

Catalyst projects may take the form of a pre-competitive research project or a project carried out in a university or related institution. In addition, to enable the technological development fund to complement tax measures and to facilitate its operation, businesses may enjoy, in regard to research and development expenditures incurred for a catalyst project, the same tax benefits as those granted for pre-competitive research and research carried out in a university or related institution.

Therefore, a refundable tax credit of 40 % of all scientific research and experimental development expenditures incurred in Québec as part of a catalyst project will be granted to the participating businesses for any project that possesses the features described above, that is recognized by the government as a catalyst project, and that obtains TDF certification.

This measure will apply to a catalyst project that is certified by the TDF during the period between the day of the Budget Speech and January 1, 1994, for scientific research and experimental development expenditures incurred in Québec no later than December 31, 1995 as part of such a project.

— TDF grants

Since the TDF complements tax measures, financial assistance will cover expenditures not financed by research and development tax credits.

50 % subsidy for the upstream and downstream expenditures of an R & D project

A TDF grant will be provided for expenditures related to a catalyst project other than those which are eligible for the refundable tax credit of 40 % of total expenditure. More specifically, eligible expenses are those incurred upstream or downstream of a catalyst project as well as research and development expenditures incurred during the project and not eligible for the 40 % refundable tax credit. Eligible expenses include costs chargeable to the collaboration among partners, costs of building and equipping a laboratory and costs prior to final marketing.

The total amount of the grant provided by the TDF may reach 50 % of eligible expenditures. The government will thus make a substantial contribution to catalyst projects. The assistance granted by the TDF will help extend government support to a large portion of the expenditures made as part of a catalyst project.

– *Other provisions*

When the research and development projects do not constitute catalyst projects, the businesses may not claim a 40 % refundable tax credit for all research and development expenditures. However, they can claim a tax credit of 20 % or 40 % for wages, as the case may be.

The financial assistance provided by the TDF for a project other than a catalyst project will cover the same eligible expenditures as those funded for a catalyst project. However, the funding rate may not exceed 30 % of eligible expenditures.

Furthermore, the TDF may fund all research and development expenditures incurred as part of a research project, whether catalyst or not, regardless of the funding limits of 50 % or 30 %, when the financial assistance is shared equally with the federal government.

Other TDF initiatives

In exceptional cases, the TDF may support other projects which meet specific government priorities. This facet of the TDF may support projects in line with government priorities in technological development, or scientific initiatives arising from the research community. Such projects will be selected on an ad hoc basis. The TDF's contribution will be determined according to the nature of the project, the degree to which it matches pre-established government priorities and the importance of the objectives. In addition, such projects cannot be termed catalyst or non-catalyst projects as described above, and the provisions introduced in their regard do not apply.

The Minister for Technology will announce the selection and evaluation procedure for catalyst projects as well as the TDF's operating procedures. Requests for information should be directed to the secretariat of the TDF.

Measures to promote technology transfers, research and development

Businesses that invest in research and development will enjoy significant competitive advantages to the extent that such investments are reflected in lower production costs. Given the existing context of trade liberalization, the tax environment must be a tonic to the modernization of our businesses by stimulating such activities as technology transfers and research and development.

Tax measures to promote technology transfers

Québec businesses can modernize without necessarily undertaking research and development themselves. For instance, they can make use of technology developed by other companies. Therefore, to enable businesses to retain their competitive position, it is important to encourage technology transfers.

— *100 % accelerated amortization for intangible investments*

100 % amortization for patents

In order to encourage the adoption of new technologies by Québec businesses, the May 12, 1988 Budget Speech introduced measures designed to stimulate private investment in Québec. Québec businesses can claim a depreciation deduction of 100 % of the capital cost of certain new assets, including certain high-technology equipment and assets used in manufacturing and processing. An additional deduction of 35 % applies for businesses which also do business outside Québec.

At present, the expenditures a company incurs to acquire patents, licences or other forms of protection for the results of research and development do not entitle it to the 100 % accelerated depreciation deduction, or to the additional deduction of 35 %. Such intangible rights or assets, generally acquired as part of a technology transfer, are thus afforded different and far less advantageous tax treatment depending on whether they constitute depreciable assets or eligible capital assets.

For instance, patents, licences or permits with a limited term are included in asset class 14 and thus can be amortized over the useful life of the asset, which in certain cases can reach 20 years. Assets such as licences that do not have a limited term, trade secrets or other assets that constitute an eligible capital asset generally qualify for a deduction of 7 % of 75 % of the expenditure for such asset computed on the residual value.

To recognize the continuing progress in technological innovation and to increase the dissemination and adaptation of new technology, intangible investments made as part of a technology transfer will henceforth be afforded the same tax treatment as certain technology equipment and new assets used for the manufacture and processing of merchandise.

Companies may claim a 100 % amortization deduction and, as the case may be, the additional deduction of 35 % in proportion to their business outside Québec, when they acquire certain forms of protection for the results of scientific research and experimental development.

– *Details of application*

A technology transfer can generally be defined as the acquisition of knowledge, know-how, techniques, processes or formulae, whether protected or not, in order to implement an innovation or an invention.

Intangible assets or rights acquired as part of a technology transfer eligible for the 100 % amortization deduction and for the additional 35 % deduction when the company also does business in another province include patents, licences and permits, whether for a limited or unlimited term, trade secrets and know-how, but do not include trademarks and industrial drawings, among others.

This measure applies to eligible intangible assets or rights acquired after the day of the Budget Speech that are used in Québec within a reasonable period following their acquisition. The existing rules for the 100 % depreciation deduction and the additional 35 % deduction introduced in 1988 will also be applicable, with adaptations, to such intangible investments, except the one relating to the period of use of the eligible assets.

– *Technical amendments*

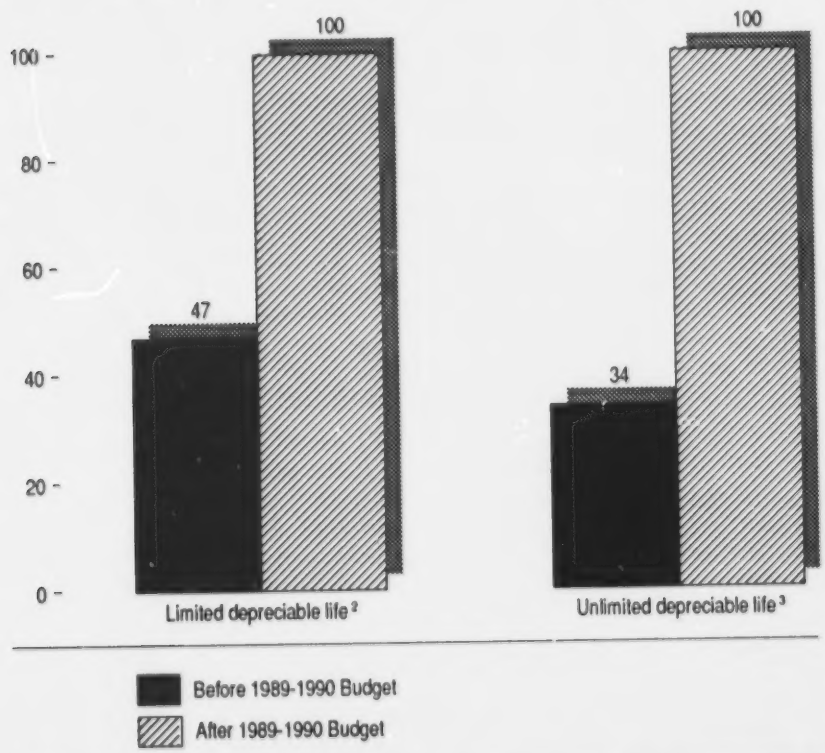
Moreover, technical amendments will be made to the tax legislation to retain the tax advantage for certain companies arising from the 100 % depreciation deduction and, if applicable, the 35 % deduction when the eligible assets are acquired or disposed of as a result, in particular, of certain transfers of assets, mergers or winding-ups. This amendment will cover both assets eligible at the time this measure was introduced in 1988 and new intangible investments, according to their respective application dates.

— ***Impact of the 100 % accelerated amortization for intangible investments***

Greater assistance in regard to intangible assets

This measure will provide substantial assistance to businesses that acquire certain intangible assets. The present value of the amortization of such assets will be 100 % instead of 47 % for assets with a limited lifetime, whereas a deduction of 34 % was allowed for those with an unlimited lifetime. The following chart illustrates the present values of amortization or of the deduction, as the case may be, for these intangible investments.

PRESENT VALUE [1] OF THE DEPRECIATION OF THE DEDUCTION ON AN INVESTMENT IN AN INTANGIBLE ASSET (as a percentage)



1 At 10 % present value.
2 Asset in category 14, depreciated over 20 years.
3 Eligible capital asset : 7 % deduction on 75 % of the expenditure calculated at residual value.

Stimulative measures for research and development

Since the 1987-1988 Budget Speech, substantial support has been provided for research and development in the form of fiscal and budgetary measures. Past experience and the consultations held with those directly involved show that additional initiatives could stimulate further activity in this area. New measures are therefore introduced today covering the following three objectives :

- ☐ increased accessibility to venture capital to finance research and development in Québec ;
- ☐ improved performance of Québec businesses by enhancing certain existing tax measures ; and
- ☐ greater effectiveness of tax measures.

— Financing research and development

The Québec Stock Savings Plan (QSSP) and the Québec Business Investment Companies (QBIC) program have been selected as the main means for financing research and development activities through private investors and businesses.

New measures are being introduced to more adequately satisfy the need for venture capital to finance such activities.

– R & D venture capital corporations

Since 1985, special provisions have been introduced in regard to the Québec Stock Savings Plan to encourage venture capital corporations to raise funds by issuing shares under the QSSP. Under existing rules, a venture capital corporation must, in particular, satisfy the following conditions :

- ☐ it must be a Canadian corporation whose shares are listed on the Montreal Exchange, and its senior management must be located in Québec or more than half its payroll must be paid to employees of an establishment located in Québec ;
- ☐ its main activity must consist in investing funds in the form of shares of other corporations or granting those corporations unsecured loans ;
- ☐ more than 50 % of the value of the investments, in shares or unsecured loans, as shown in its financial statements, must consist of investments in corporations that do business mainly in Québec and whose shares are not listed on any stock exchange ; and
- ☐ it must participate in the administration of at least five different corporations as described above, in which it must hold investments of the types mentioned above.

In short, the venture capital corporation which undertakes a public issue of stock under the QSSP must have investments in at least five corporations whose shares are not listed on a stock exchange and its total investments of this kind must account for more than 50 % of all its investments.

In addition, since the May 12, 1988 Budget Speech, the shareholders of a QSSP venture capital corporation that finances research and development may claim, subject to certain conditions, an additional deduction for such expenditures in Québec financed by the corporation.

To increase the accessibility to venture capital for research and development, and to promote the creation of venture capital corporations to finance such activity, a new, more flexible financing vehicle, the "R & D venture capital corporation", is being introduced.

Features of the R & D venture capital corporation

R & D venture capital corporations not listed on a stock exchange

The features which distinguish the R & D venture capital corporation from a venture capital corporation eligible for the QSSP under existing rules include the following :

- ☐ Shares of the capital stock of an R & D venture capital corporation need not be listed on the Montreal Exchange. These corporations will therefore not be required, among other conditions, to meet all the standards applicable to corporations seeking a stock exchange listing, which will significantly simplify the process of forming such corporations.

- ☐ On the date of the receipt of the final prospectus or of the exemption from filing a prospectus, a venture capital corporation must have assets less than $ 50 000 000.

- ☐ The R & D venture capital corporation's activity will consist in investing in research and development in Québec. The proceeds of the corporation's public share issue must, excluding reasonable issuance charges, be used almost exclusively to fund scientific research and experimental development expenditures in Québec. A commitment to this effect must be given by the corporation and be indicated in the final prospectus or exemption from filing a prospectus.

- ☐ The private or public corporations in which the R & D venture capital corporation invests must carry on their activities in Québec, and, during the 12 months preceding the investment by the R & D venture capital corporation,have at least five full-time employees who are not insiders or persons related to insiders, and have assets of less than $ 250 000 000. The rules concerning associated companies will apply for purposes of computing the assets of the corporations. A corporation which satisfies these requirements is hereinafter referred to as an "eligible corporation".

- ☐ Investments must be in the form of common shares with full voting rights of the capital stock of one or more eligible corporations whose shares may or may not be listed on a stock exchange.

R & D deductions

Deductions of 100 % to 200 %

The general principle for tax deductions granted to individual shareholders of the R & D venture capital corporation is similar to the principle introduced for the R & D/QSSP financing vehicle. This principle consists in establishing a link between the shareholders, the corporation which has received a tax credit and the time when the research and development expenditure was made.

A basic deduction of 100 % of the cost of the share will be granted to shareholders of an R & D venture capital corporation when the scientific research and experimental development expenditure is made by or on behalf of the eligible corporation.

In addition, a further deduction of 50 % or 100 %, as the case may be, will be granted to a shareholder of the R & D venture capital corporation when the eligible corporation has foregone its Québec tax credits, according to the principle underlying the rules which currently apply for the R & D/QSSP vehicle.

Operation

The vast majority of the rules governing the QSSP and the financing of research and development under the QSSP will apply, with adaptations, to the new financing vehicle, such as the requirement that an advance ruling be obtained, the QSSP and R & D penalties, the process of waiver by the eligible corporation and the requirement of an auditor's certificate. However, the R & D venture capital corporation cannot be a corporation eligible for the QSSP.

The basic deduction, as well as the additional deduction, will not be included in the Québec Stock Savings Plan account and no minimum holding period will be stipulated for a share of the capital stock of an R & D venture capital corporation.

Furthermore, the basic deduction will be limited to an amount equal to 30 % of total income, deferrable in computing a subsequent year's taxable income. The additional deduction will not be subject to any limit and will also be deferrable, just as the additional R & D/QSSP deduction currently is. The basic and additional deductions may be claimed by the first purchaser.

Shareholders can claim the benefits associated with the strategic economic investment account and the deductions will not be taken into account in computing cumulative net investment losses.

Application date

This measure will apply to any R & D venture capital corporation which undertakes a public share issue beginning after the day of the Budget Speech, that is, a share issue for which the receipt for the final prospectus or the exemption from filing a prospectus is obtained after the day of the Budget Speech.

In addition, the basic and additional deductions will be granted for scientific research and experimental development expenditures made in Québec after the day of the Budget Speech.

– *The R & D/QSSP financing vehicle*

Relaxation of R & D/QSSP rules

Generally speaking, at present, in order to be authorized to transfer the value of its tax credits to its shareholders in the form of additional deductions, a corporation which undertakes a public issue of shares under the QSSP must, notably, make a commitment, in the final prospectus or application for exemption from filing a prospectus, to use more than 50 % of the proceeds of the share issue for research and development expenditures in Québec.

To facilitate raising outside funds to be used, among other things, to finance research and development activities, whether current or new, this requirement is withdrawn.

Thus, any eligible corporation entitled to finance its research and development using the R & D/QSSP financing vehicle can forego its Québec tax credits, if it so chooses, and have its shareholders benefit from additional deductions for any portion of the proceeds of the issue of shares to be used, as indicated in the final prospectus or exemption from filing a prospectus, for scientific research and experimental development expenditures in Québec. However, a favourable advance ruling from the ministère du Revenu will continue to be required to enable the shareholders to claim the additional deductions, which will depend on the amount indicated in the final prospectus or exemption from filing a prospectus at the time when the advance ruling is handed down, but may not exceed the amount spent by the eligible corporation for research and development.

Therefore, it will now be easier for corporations to finance their research and development under the QSSP, while making the purchase of a security related to a corporation's overall activities more attractive for investors.

This measure applies to share issues which begin after the day of the Budget Speech, that is to say, issues for which the receipt for the final prospectus or exemption from filing a prospectus is obtained after the day of the Budget Speech, it being understood that the additional deductions will be granted for scientific research and experimental development expenditures made in Québec after the day of the Budget Speech.

– *The QBIC/R & D financing vehicle*

Relaxation of QBIC/R & D rules

Currently, as with the financing of research and development through the QSSP, in order for QBIC shareholders to enjoy additional deductions, the corporation or corporations in which the QBIC makes an eligible investment must make a commitment to the effect that more than 50 % of the proceeds of the QBIC's share issue will be used for research and development expenditures in Québec.

In addition, and especially for purposes of simplification, only funds raised in a new QBIC share issue currently enable the use of the QBIC/R & D vehicle, and the additional deduction can be claimed only when the first investment is made and only by the first purchaser of the share of the capital stock of the QBIC.

At present, the shareholders of a QBIC that makes a second eligible investment to finance research and development do not enjoy additional deductions whereas, in general, a second eligible investment enables the shareholders of the QBIC to claim a basic deduction. In addition, the second purchaser of a share of the capital stock of a QBIC issued as part of an issue of shares in regard to which additional deductions can be attached, can not claim these deductions.

To enhance the flexibility of research and development financing through the QBIC program, the requirement concerning the use of more than 50 % of the proceeds of the share issue for research and development expenditures in Québec is withdrawn. In addition, the requirement restricting entitlement to the additional deduction to the first purchaser, the requirement referring to a new issue of shares of a QBIC made after May 12, 1988, and the one dealing with a second investment are all amended.

Henceforth, any investment made by a QBIC in an eligible corporation will enable the shareholders of the QBIC who hold shares at the time the QBIC makes the eligible investment to claim the additional deductions for such expenditures made by an eligible corporation and for which it has foregone its Québec tax credits. At present, for purposes of the basic deduction, a QBIC may decide to allocate to the shareholders it chooses an amount for participation in an eligible investment, that must be approved by the Société de développement industriel du Québec. Rules to the same effect will be announced for purposes of the additional deduction.

Shareholders of a QBIC will be entitled to the additional deductions only if a favourable advance ruling is obtained from the ministère du Revenu prior to each eligible investment by the QBIC. The corporation receiving such an investment must then undertake or have undertaken to make scientific research and experimental development expenditures in Québec, in a stated proportion, from the proceeds of the investment. Furthermore, the additional deductions will depend on the amount the eligible corporation undertook to spend in this way and may not exceed the cost of the research and development carried out in Québec by the eligible corporation.

This measure applies to any eligible investment of a QBIC made after the day of the Budget Speech, and the additional deductions will be granted for scientific research and experimental development expenditures made in Québec after the day of the Budget Speech.

However, in the interests of simplification and to ensure investors that the rules will continue to apply to funds previously raised to finance research and development, the new measures will not apply to an eligible investment made from funds raised before the day following the day of the Budget Speech by a QBIC that has made an issue of shares after May 12, 1988 but prior to the day following the day of the Budget Speech as part of the QBIC/R & D financing vehicle. In addition, to encourage investments by this kind of QBIC in research and development, an eligible investment made from funds not raised before the day following the day of the Budget Speech will enable the QBIC's shareholders at the time of the investment to claim the additional deductions when the eligible corporation foregoes its Québec tax credits.

Expansion of activity sectors to include research and development

Currently, a QBIC's investment, to be considered eligible and hence entitle the QBIC's shareholders to a tax deduction, must be made in a corporation working mainly in one of the following sectors : manufacturing, tourism, growth service, aquaculture, export or industrial incubator. The growth service sector includes the operation of an applied research laboratory.

At present, to entitle the taxpayer to a basic deduction and an additional deduction when the financing of research and development is involved, the eligible corporation in which a QBIC invests must first be operating in one of the sectors covered by the Québec Business Investment Company program. For this reason, a QBIC's investment in a corporation whose only activity consists in conducting scientific research and experimental development other than the operation of an applied research laboratory is not eligible and, consequently, the shareholders of the QBIC are not entitled to any tax benefits.

To further encourage research and development in Québec and stimulate the financing of this activity by outside capital, henceforth, a corporation whose activities consist solely in conducting scientific research and experimental development, as this expression is understood in the tax legislation, can be considered a corporation working in a sector of activity which is eligible for the purposes of the QBIC program.

However, the shareholder of a QBIC that makes an eligible investment in such a corporation can only claim the basic deduction once the research and development expenditure has been made, and the additional deduction only once the corporation has waived its Québec tax credits. A certificate from an auditor must be issued to the effect that the scientific research and experimental development expenditures have been made.

This measure applies to any eligible investment by a QBIC made after the day of the Budget Speech. In addition, the basic and additional deductions will be granted for scientific research and experimental development expenditures made in Québec after the day of the Budget Speech.

These measures, as well as the increase from $ 1 000 000 to $ 2 500 000 in the limit on investments which an eligible corporation may receive from one or more QBICs, should provide a significant stimulus for financing research and development through Québec Business Investment Companies. The details concerning the increase in the investment limit are given in the section entitled: "Québec Business Investment Companies (QBICs)".

— ***Improvement of fiscal measures***

– *Extension of the 40 % tax credit on wages to public small and medium-sized businesses*

In the 1988-1989 Budget Speech, the 20 % refundable tax credit for wages was raised to 40 % for private small and medium-sized businesses for the first $ 2 000 000 of wages paid in Québec, per year, as scientific research and experimental development expenditures.

40 % tax credit on wages for public small and medium-sized businesses

At present, this measure is of benefit to Canadian-controlled private corporations with assets of less than $ 25 000 000 or net shareholders' equity of no more than $ 10 000 000. The rules concerning associated companies are applicable in this regard.

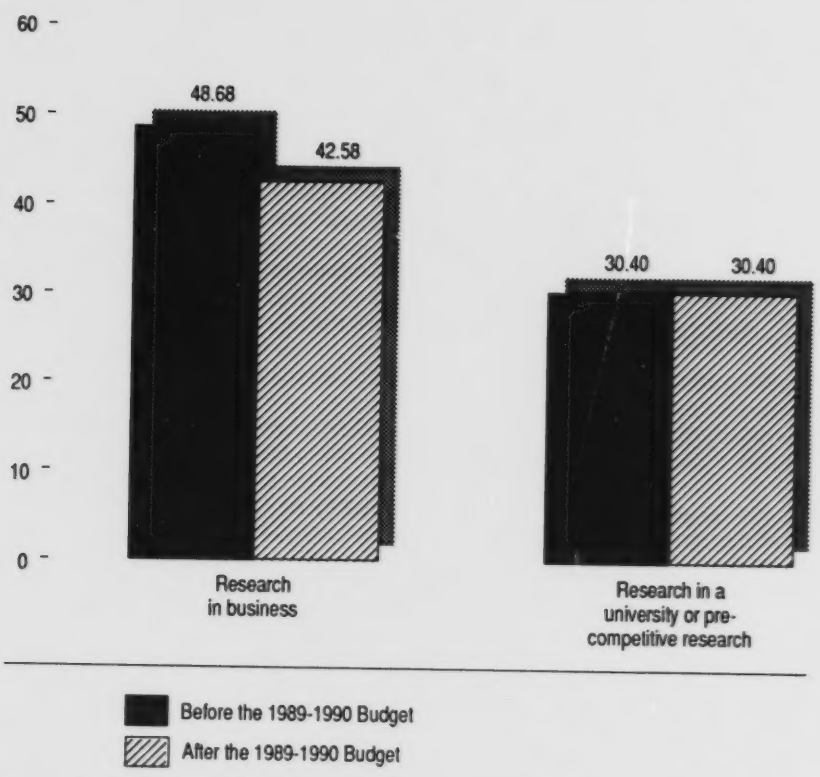
To recognize that research and development activities are as risky for public small and medium-sized businesses as for private ones, the existing criterion related to the size of the business will replace the criterion concerning corporate legal and tax status, for purposes of granting this increased tax credit.

The 40 % refundable tax credit for wages paid in Québec is therefore extended to any corporation controlled by Canadian residents, whether the corporation is private or public, with assets of less than $ 25 000 000 or net shareholders' equity of no more than $ 10 000 000, taking into account, however, as is currently the case, the assets and net shareholders' equity of any associated company.

This measure applies to wages paid in Québec after the day of the Budget Speech for scientific research and experimental development expenditures made in Québec after that day.

This measure provides additional support for research and development undertaken by public small and medium-sized businesses. In this regard, the following chart shows the net cost of a $ 100 R & D expenditure of which 50 % consists of wages for a public small or medium-sized manufacturing business, before and after this measure. If the research is carried out in the business, the net cost falls from $ 48.68 to $ 42.58. In the case of research carried out in a university or related institution, or in the case of pre-competitive research, the net cost remains at $ 30.40 since, in this case, the businesses already enjoy a 40 % tax credit for the entire expenditure.

NET COST OF A $ 100 R & D EXPENDITURE BY A PUBLIC SMALL OR MEDIUM-SIZED MANUFACTURING BUSINESS (in dollars)



Note : According to the tax rates in force at July 1, 1991, that is, once the federal tax reform has been completed.

– Renewal of certain measures

Certain tax measures extended for three years

To enable businesses to immediately improve the planning of their research and development projects, the tax measures introduced in 1987 and 1988, i.e. those concerning research in universities and related institutions, pre-competitive research and the tax holiday for foreign researchers, are renewed for a period of three years.

Therefore, in general, scientific research and experimental development expenditures can be made in Québec up to December 31, 1995 rather than December 31, 1992, in order that the current tax benefits arising from these measures may be enjoyed.

Research in universities and related institutions

Businesses can thus claim a refundable tax credit of 40 % of all their scientific research and experimental development expenditures incurred in Québec no later than December 31, 1995 under a university research contract concluded before January 1, 1994.

Pre-competitive research carried out within a consortium

In addition, receipts obtained from the ministère de l'Industrie, du Commerce et de la Technologie before January 1, 1994 for scientific research and experimental development expenditures incurred in Québec no later than December 31, 1995 will entitle businesses to the refundable tax credit of 40 % of all such expenditures concerning their pre-competitive research project.

Tax holiday for foreign researchers

Finally, the income tax holiday will be granted to foreign researchers whose employment contract was signed after April 30, 1987 but before January 1, 1994, for scientific research and experimental development expenditures incurred in Québec by the company no later than December 31, 1995. In addition, amendments will be made to the tax legislation so that the requirement that the foreign researcher have resided outside Canada on April 30, 1987 is replaced by a requirement that the researcher not have resided in Canada immediately prior to concluding the employment contract or to taking up his duties. This measure applies to employment contracts concluded after the day of the Budget Speech for researchers who take up their duties after that day.

– *New eligible university entities recognized*

Research carried on in a university or related institution currently enables businesses to claim a refundable tax credit of 40 % of all scientific research and experimental development expenditures when, under a university research contract, such expenditures are made by an eligible university entity.

At present, eligible university entities include Québec universities and the following prescribed agencies : the Centre de recherche en informatique de Montréal (CRIM), the Canadian Centre for Automation and Robotics in Mining (CCARM) and the Institut de recherche en exploration minérale (IREM).

New eligible university entity : $(CM)^2$

Since, as a matter of fact, the Centre de caractérisation microscopique des matériaux $(CM)^2$ is attached to the metallurgical engineering department of the École Polytechnique de Montréal, it will henceforth be considered an eligible university entity.

Furthermore, since the majority of university medical research in Québec is not carried out directly by universities but by hospital/university medical research centres recognized by the Minister of Health and Social Services, such centres must be considered part of the university community and, as such, deemed to constitute eligible university entities, given that they are affiliated with these entities.

Scientific research and experimental development expenditures made in one of these hospital/university medical research centres, on behalf of businesses, under a university research contract concluded after April 30, 1987 will entitle the businesses to the 40 % refundable tax credit on all such expenditures.

Moreover, since December 18, 1987, businesses must obtain a favourable advance ruling from the ministère du Revenu before they are entitled to claim this refundable tax credit. To give full effect to this measure, the tax legislation concerning this requirement, among others, will be amended to enable businesses to request an advance ruling for a contract concluded after December 18, 1987 and within the 90 days following the day of the Budget Speech, and thus claim this tax credit, provided such request is made before January 1, 1990.

The hospital/university medical research centres currently recognized as eligible university entities are :

New university entities : hospital/ university medical research centres

Centres affiliated with McGill University

- ☐ Douglas Hospital Centre Research Institute
- ☐ Montreal Neurological Institute
- ☐ Lady Davis Institute, Sir Mortimer B. Davis Jewish General Hospital
- ☐ McGill University and Montreal Children's Hospital Research Centre
- ☐ Montreal General Hospital Research Centre
- ☐ Royal Victoria Hospital Research Centre

Centres affiliated with the Université de Montréal

- ☐ Institut du cancer de Montréal
- ☐ Centre de recherche de l'Institut de cardiologie de Montréal
- ☐ Institut de réadaptation de Montréal
- ☐ Institut de recherches cliniques de Montréal
- ☐ Centre de recherche de l'Hôpital Louis-H. Lafontaine
- ☐ Centre de recherche de l'Hôpital Maisonneuve-Rosemont
- ☐ Centre de recherche de l'Hôpital Notre-Dame
- ☐ Centre de recherche de l'Hôpital du Sacré-Coeur
- ☐ Centre de recherche clinique André-Viallet de l'Hôpital Saint-Luc
- ☐ Centre de recherche de l'Hôpital Sainte-Justine
- ☐ Centre de recherche de l'Hôpital Côte-des-Neiges

Centres affiliated with Université Laval

- ☐ Centre de recherche du Centre hospitalier de l'Université Laval
- ☐ Centre de recherche de l'Hôpital de l'Enfant-Jésus
- ☐ Centre de recherche de l'Hôpital Laval
- ☐ Centre de recherche de l'Hôtel-Dieu de Québec
- ☐ Centre de recherche de l'Hôpital Saint-François d'Assise

Centre of the Université de Sherbrooke

- ☐ Centre de recherche du Centre hospitalier universitaire de Sherbrooke

– *Pre-competitive research carried out within a consortium*

To promote the creation of pre-competitive industrial research consortia in Québec, the 1988-1989 Budget Speech raised the refundable tax credit to 40 % of all scientific research and experimental development expenditures incurred in Québec as part of a pre-competitive research project. To be recognized as such and entitle the taxpayer to this tax credit, the research project must be issued a receipt to this effect by the Minister of Industry, Commerce and Technology.

Features of pre-competitive research

The ministère de l'Industrie, du Commerce et de la Technologie has defined the features of a pre-competitive research project and the criteria which must be satisfied to obtain the department's receipt. Briefly, the department's guidelines in this regard are as follows :

- ☐ the research and development project must be carried on by or on behalf of a genuine combination of non-related businesses ; the agreement reached by these businesses must distribute their rights and obligations in a fair and reasonable manner ;

- ☐ the project must be related to the activities of each of the businesses and be likely to contribute directly to their technological development and to their growth ;

- the research must correspond to the tax definition of scientific research and experimental development and be of a pre-competitive nature; and
- the research project must start after May 12, 1988 and the expenditures must be incurred in Québec no later than December 31, 1995.

— Effectiveness of fiscal measures

Businesses, and particularly small and medium-sized businesses, experience a variety of difficulties in carrying out a research and development project. These difficulties are not limited to the inherent risks of such activities or to the cost of a research and development project : they involve the business' available liquidity and the information and coordination needed to continue research and development. New measures are therefore being introduced to ensure the effectiveness of fiscal measures.

– Reduction of tax instalment payments

Under existing tax legislation, the amount attributable to tax credits granted for research and development expenditures can be applied to reduce the business' income tax or be paid to the business.

Monthly payments of tax on capital reduced by R & D tax credits

In addition, the legislation allows the businesses to to reduce the income tax instalments it must pay during the year by the amount of the research and development-related tax credits computed on the basis of the period covered by the payment.

To increase business working capital, the tax legislation will be amended so that from now on it will also be possible to reduce instalment payments concerning the tax on capital by the value attributable to tax credits related to scientific research and experimental development.

A larger number of businesses will therefore be able to reap the benefits of their research and development tax credits as research and development expenditures are made in Québec.

– Program to assist small and medium-sized businesses to finance tax credits

Financing of federal and Québec tax credits

In order to improve the cash situation of non-taxable small and medium-sized businesses and of those whose income tax and tax on capital are less than the amount attributable to Québec tax credits, a program to finance tax credits is being introduced.

The program consists of a loan guarantee provided by the Société de développement industriel du Québec (SDI) to financial institutions. The guarantee will cover a significant portion of Québec and federal tax credits receivable. The program is designed for Québec businesses which otherwise qualify for the 40 % refundable tax credit for wages paid in Québec.

This financial assistance will complement the reduction of tax instalment payments by the amount of Québec refundable tax credits. It will afford businesses greater liquidity and facilitate the financing of federal and Québec tax credits for small and medium-sized businesses.

The specific details of this program will be developed by the ministère de l'Industrie, du Commerce et de la Technologie. The program will take effect once the rules have been adopted.

– *Project development assistance program*

Small and medium-sized businesses in Québec play a significant role in our economy. To encourage them to become more involved in research and development, a project development assistance program will be implemented.

Assistance for the development of an R & D project

This program is designed to enable businesses to use the services of various specialists or organizations to assemble the knowledge and expertise needed for the development of an R & D project.

A portion of the reasonable costs related to the formulation of an implementation plan for a research and development project, which must include supporting documentation and requires follow-up of each stage, will be refunded. The amount of the assistance can reach 50 % of these costs. A business wishing to participate in the program must satisfy the following conditions :

- ☐ the business must be otherwise eligible for the 40 % refundable tax credit for wages paid in Québec ;
- ☐ at the time the application is submitted, the business must have 250 permanent employees at most ; and
- ☐ the proposed research and development project for which an implementation plan is required must not exceed $ 20 000.

The Minister of Industry, Commerce and Technology will shortly release the details of application of this program, for which a total annual envelope of $ 500 000 has been allocated.

— ***Other measures***

Currently, the amount of the scientific research and experimental development expenditure eligible for tax incentives must be reduced by the amount of government or non-government assistance received or receivable, among others.

To ensure the integrity of the tax measures related to research and development, the amount of the eligible expenditure must also be reduced by amounts which represent a payment, assignment or other form of transaction, made by a third party to another person, or by another person to the taxpayer, with or without his consent, involving money, rights or assets, for the taxpayer's direct or indirect benefit or that of the third party, as part of a research and development project, if the expenditure would not have been eligible had he himself made the payment, assignment or other type of transaction, or if the effect is to reduce the taxpayer's real financial contribution, in particular through a principal repayment on a loan, guarantees or other form of transaction made with a view to eliminating the risk inherent in research and development.

In the interests of simplification and harmonization with federal tax legislation, the expenditure eligible for refundable Québec tax credits for the entire expenditure will be the same as the eligible expenditure for purposes of the federal tax credit, subject to certain features specific to Québec.

Finally, a taxpayer who is a member with limited liability of a partnership carrying on an active business is deemed, for the purposes of the tax measures related to research and development, not to be carrying on such a business in that capacity.

These amendments apply to all scientific research and experimental development expenditures made in Québec after the day of the Budget Speech, except those made as part of a research and development project which had reached a sufficiently advanced stage on the day after the Budget Speech. For this purpose, a request for an advance ruling must be submitted to the ministère du Revenu no later than June 15, 1989.

Budgetary measures to encourage the transfer and dissemination of technologies among businesses

More than $ 39 000 000 for the dissemination of technology

To adapt to the new economic context, businesses must make better use of the opportunities provided by new technologies. Small and medium-sized businesses, especially those that are not technology-intensive, may encounter problems when they have to specify their needs and integrate innovations into their operations. It is generally agreed that small and medium-sized businesses often have difficulty in adequately identifying the technological options available to them and successfully managing installation.

Moreover, high technology companies, and small ones in particular, indicated at the Québec technology summit that they found it difficult to find adequate financing once their projects had reached the marketing stage. In view of this situation, additional funds will be provided for further marketing support for research and development activities and for the dissemination of new technologies in small and medium-sized businesses.

Assistance for the marketing of research and development

Additional funds for the PARIQ program

Increased support for the marketing of research and development will be provided through the SDI's research and innovation assistance program (PARIQ). From now on, expenditures accepted under this program will be broadened to include marketing expenditures, and loans granted under this program will be interest-free for the first three years of the loan. For this purpose, an additional $ 1 500 000 will be allocated to the program per year.

Measures fostering the dissemination of new technologies

Additional funds for the PRO-PME and PSES programs

Two new measures are being introduced to promote the transfer and dissemination of technologies among small and medium-sized businesses. First, a new facet is added to the PRO-PME program to provide small and medium-sized businesses with support to hire outside consultants to make the diagnostic analysis of the business and study its strategic positioning with respect to technological progress. In addition, a new program is introduced to fund consulting fees incurred by small and medium-sized businesses for activities such as gathering information about, and acquiring, adapting and installing new technologies.

The Minister of Industry, Commerce and Technology will soon release the details of application of these two new initiatives which will be allocated $ 2 700 000 in 1989-1990 and $ 10 000 000 during each of the following fiscal years.

Moreover, the lack of personnel with training in science is an obstacle to the introduction of new technologies in businesses. The science-related employment support program (PSES) is designed to overcome this weakness and assessments of the program indicate it is satisfying the needs of business. Consequently, the program will receive additional funding of $ 2 500 000 each year so that a large number of businesses may be reached during the next three years.

Centre de recherche industrielle du Québec

Additional funds for the CRIQ

The Centre de recherche industrielle du Québec (CRIQ) plays a major role among businesses that undertake technological innovation. To enable the CRIQ to expand its activity, its funding was increased by $ 2 500 000 for 1989-1990, reaching almost $ 20 000 000. This Budget Speech allocates a further $ 3 000 000 for 1989-1990 to finance two large projects. The first, costing $ 2 000 000, involves the installation of a testing facility for water purification processes and equipment while the second consists in setting up a computer-aided manufacturing (CAM) demonstration workshop. This workshop will cost $ 1 000 000 and will allow Québec businesses to become acquainted with the operation and effectiveness of new manufacturing techniques.

In all, a substantial amount will be required for these new initiatives to foster the marketing of research and development and the transfer and dissemination of technologies among small and medium-sized businesses. Including the project development assistance program, a total of $ 39 200 000 will be needed over the next three years, including $ 10 200 000 during the current fiscal year.

Sales tax exemption for rolling stock used in production

At present, production equipment used primarily to manufacture goods is exempted from the retail sales tax. However, this exemption does not cover rolling stock, except certain categories used solely outside public thoroughfares in mining or forestry operations.

To encourage new methods of production and take into account the use of rolling stock in other industrial sectors, and concomitantly reduce the tax burden of companies in this respect, the production equipment exemption will be extended to most rolling stock used in industry.

Rolling stock used for production exempted from sales tax

Generally speaking, rolling stock purchased after midnight on the day of the Budget Speech and used solely off public thoroughfares, primarily to produce goods intended for sale, will be exempted from the retail sales tax. However, the exempted rolling stock will not include touring vehicles, trucks weighing 3 000 kg or less, minibuses, buses, all-terrain vehicles whose net weight does not exceed 450 kg, snowmobiles, aircraft, boats and railway equipment other than that used in mines or quarries. Moreover, a purchaser who has paid the sales tax at the time of purchase of exempted rolling stock acquired prior to midnight on the day of the Budget Speech and delivered to the purchaser subsequent to that time may apply to the ministère du Revenu for a refund.

This exemption will also be extended to the components or spare parts of rolling stock eligible for the exemption respecting production material purchased after midnight on the day of the Budget Speech.

However, as in the case of rolling stock used in mining or forestry operations, the rolling stock thus exempted will again be taxable at its value when it ceases to be used in production or when it is used on a public thoroughfare.

Under the rules now in effect concerning the exemption of rolling stock used exclusively off public thoroughfares for mining or forestry operations, mining operations are deemed to mainly encompass the extraction and processing of ore up to the first stage of concentration, and forestry operations to include the cutting, processing and handling of timber in the forest.

To better take into account the scope of activities in these production sectors, from now on, the building and maintenance of forest access roads undertaken in the course of forestry operations will qualify for the exemption from the sales tax on production equipment. In the mining sector, the transportation and piling at a first storage site of residues resulting from the initial phase of concentration will also be included in mining operations. Thus, rolling stock, its components and spare parts used solely off public thoroughfares, primarily to build forest roads in connection with forestry operations or used to transport and pile residues resulting from the initial stage of mineral concentration will be exempted from the sales tax.

This measure will apply to the purchase of rolling stock and component or spare parts effected after midnight on the day of the Budget Speech. Moreover, the purchaser of such rolling stock who paid the sales tax at the time of purchase of such rolling stock acquired prior to this time and delivered to the purchaser after the day of the Budget Speech may apply to the ministère du Revenu for a refund.

Concerning exempted rolling stock which is leased out on the day of the Budget Speech, the new exemptions will apply to rent paid after the day of the Budget Speech.

The new measures outlined above with regard to the sales tax exemption on production equipment will put $ 21 000 000 a year in the hands of businesses.

Impact of fiscal and budgetary measures pertaining to investment in new technology

$ 176 000 000 more for new technology

The measures pertaining to investment in new technology will cost the government $ 176 000 000 over the three fiscal years beginning with 1989-1990. Of this amount, $ 137 000 000 is attributable to fiscal measures. Moreover, the technological development fund will provide $ 180 000 000 for research and development over this period. For the current fiscal year, these measures will amount to additional assistance of $ 37 000 000 for investment in new technology.

FINANCIAL IMPACT OF THE NEW TECHNOLOGY INVESTMENT MEASURES ON THE GOVERNMENT'S FINANCIAL FRAMEWORK
(in millions of dollars)

	1989-1990	1990-1991	1991-1992
Fiscal measures			
☐ 100 % accelerated amortization for intangible investments	– 2	– 2	– 2
☐ R & D venture capital companies	—	– 23	– 15
☐ Extension of the 40 % tax credit on wages to public small and medium-sized businesses	– 4	– 9	– 10
☐ Other measures applicable to new technologies	– 3	– 1	– 1
☐ Sales tax exemption on rolling stock	– 18	– 22	– 25
Subtotal	**– 27**	**– 57**	**– 53**
Other budgetary measures	– 10	– 14	– 15
Subtotal	**– 37**	**– 71**	**– 68**
Technological development fund[1]	– 60	– 60	– 60
Total	**– 97**	**– 131**	**– 128**

1 These amounts are not included in total measures for new technologies in the Budget Speech, since they were announced at the Québec technology summit.

1.3 Investment in financial capital

Savings and credit union permanent shares savings plan

New savings plan for savings and credit unions

The legislation covering savings and credit unions has recently undergone a major reform granting these institutions additional powers and modern means with which to develop. In order to meet new challenges, savings and credit unions require a solid financial structure. In this regard, they now have access to a new source of capital, in the form of permanent shares, that is better adapted to their needs.

To sustain growth in the permanent capitalization of savings and credit unions, a new savings and credit union permanent shares savings plan is introduced. This new plan, which will be in effect for three years, will enable savings and credit unions to undertake issues of permanent shares, subject to an annual maximum, entitling the first purchasers to a tax deduction.

Tax deduction

100 % deduction

An individual, other than a trust, will be able to claim a deduction from his taxable income of 100 % of his investment in eligible securities. An individual's maximum deduction will be $ 1 000 per year, resulting in total deductions of $ 3 000 during the life of the plan.

The deduction will be granted to the first purchaser in the year the security is acquired, except during taxation year 1989 when the deduction will be granted if the shares issued for 1989 are acquired during that year or during the first 60 days of 1990. More specifically, securities acquired during the first 60 days of 1990 will entitle the taxpayer to a deduction in taxation year 1989 or 1990, as the taxpayer chooses.

In addition, in the interests of effectiveness, the deduction may be included in the strategic economic investment account and will not be included in computing cumulative net investment losses.

Life of the plan and overall limit on issues of securities

The plan will be in effect for three years and the total amount of permanent shares, for all savings and credit unions, entitling taxpayers to a tax benefit has been set at $ 250 000 000, with $ 75 000 000 for taxation year 1989, $ 75 000 000 for taxation 1990 and $ 100 000 000 for taxation 1991. However, should the annual ceiling on issues of permanent shares attributable to either 1989 or 1990 not be reached, the difference between the ceiling for the year in question and the total of the eligible permanent shares issued during such year can be added to the annual ceiling for the following year.

Eligible securities

Eligible securities under the plan will consist of permanent shares of a participating savings or credit union acquired by a first purchaser for cash after the day of the Budget Speech and before January 1, 1992. More specifically, the permanent shares issued by a savings and credit union as patronage dividends will not be eligible under the plan. In addition, eligible securities must be held for a minimum period covering two complete calendar years.

Other considerations

A provision will be introduced so that the transfer of a permanent share to a trust administering a Registered Retirement Savings Plan under which the first purchaser of an eligible permanent share or his spouse is the annuitant is deemed not to constitute an alienation for the purposes of computing the minimum holding period. In addition, technical provisions will be introduced to facilitate the application of the plan and to provide that the shares of cooperatives, including those of savings and credit unions, cannot be covered by a QSSP.

Tax assistance of $ 55 000 000

Under this program, the financial assistance provided by the Québec government to the permanent capitalization of savings and credit unions will total $ 55 000 000.

1.4 Support for entrepreneurship and venture capital

Extension of additional deductions covering exploration costs incurred in Québec

Tax assistance for flow-through shares extended

One goal of the tax reform was to maintain and enhance tax incentives of strategic importance to Québec's economic development. Consequently, an additional 33 1/3 % deduction was introduced to foster regional economic development and promote mining, oil and gas exploration in Québec, and facilitate the outside financing of exploration firms which do not have resource development income.

An individual taxpayer may thus deduct from his overall income an additional 33 1/3 % deduction with respect to certain exploration expenses incurred in Québec prior to January 1, 1990, taking into account the 60-day rule stipulated in taxation legislation.

In order to better take into account the higher risk which accompanies the initial stage of mining exploration, a further 33 1/3 % deduction was introduced for surface mining exploration costs incurred by an exploration firm which does not receive resource development income, in Québec prior to January 1, 1990. This additional deduction brings the overall deduction available to an individual with regard to such expenses to 166 2/3 %.

To make Québec taxation system measures more effective, it is also stipulated that the additional deductions could be included in the strategic economic investment account and that they would not be taken into account when cumulative net investment losses are calculated.

The federal government introduced a subsidy program instead of using tax incentives in order to encourage natural resource exploration in Canada. The Canadian Exploration Incentives Program (CEIP) will be in effect until December 31, 1990.

To sustain broad support for the Québec mining exploration sector and acknowledge the high risk associated with investment in this sector, the special measures covering exploration costs incurred in Québec will be extended for another year. In light of the relation between the federal resource exploration assistance program and Québec tax incentives, measures inherent in the Québec taxation system must take into account federal assistance. Thus at the end of 1990, it will be possible to reassess Québec tax incentives in relation to policy directions the federal government adopts under the Canadian Exploration Incentives Program (CEIP).

Thus, an individual may benefit from the additional 33 1/3 % deduction with respect to certain mining, oil or gas exploration costs, and the further 33 1/3 % deduction related to a number of surface mining exploration costs incurred in Québec prior to January 1, 1991, taking into account the 60-day rule.

Québec Stock Savings Plan (QSSP)

Shares acquired as a result of the conversion of convertible debentures and preferred shares

At present, shares bought for cash are eligible for a deduction under the Québec Stock Savings Plan (QSSP), as are shares acquired when a share right is exercised. A number of businesses raise capital by issuing debentures or preferred shares which can be converted into shares in the corporation. The shares acquired as a result of such conversions are not eligible for inclusion in the QSSP as they are not bought for cash.

— Eligibility for inclusion in the QSSP

Debentures convertible into QSSP shares

Modifications will be adopted to make eligible for inclusion in the QSSP shares which would otherwise be eligible and which are acquired by an individual as a result of the conversion of debentures or convertible preferred shares, as is currently the case with respect to shares purchased when a warrant is exercised.

Making shares acquired through the conversion of such securities eligible for inclusion in the QSSP is designed to ensure better permanent capitalization of Québec businesses.

— Deduction rate

An eligible share acquired as a result of the conversion of debentures or convertible preferred shares will entitle the shareholder to the deduction rate prevailing with respect to this share at the time of the conversion, where it is deemed that the date of the receipt of the prospectus or the exemption from filing a prospectus related to the issue of the debentures or the convertible preferred shares falls in the year of the acquisition of the share.

— Eligible shares

A share acquired as a result of the conversion of debentures or convertible preferred shares will constitute a share eligible for inclusion in the QSSP provided the following conditions are satisfied :

- ☐ by the date of the final receipt or the exemption related to the issue of debentures or convertible preferred shares, the issuing corporation is eligible for inclusion in the QSSP and has assets under $ 250 000 000 ;
- ☐ the corporation has obtained a favourable advance ruling from the ministère du Revenu by the date of the final receipt or the exemption ; and
- ☐ the share acquired through the conversion would have been an eligible security of the same corporation, i.e. a share otherwise eligible for inclusion in the QSSP, had it been purchased for cash.

More specifically, these new provisions will also apply to QSSP investment funds and QSSP investment groups, bearing in mind the necessary adjustments. Current rules which stipulate that certain preferred shares of developing corporations may be eligible for inclusion in the QSSP will be maintained, with modifications. In this instance, the deduction will continue to apply at the time the convertible preferred share is acquired, rather than the time when the conversion privilege is exercised.

These measures will apply to issues of debentures or convertible preferred shares initiated after the day on which the Budget Speech is delivered.

Broadening of the stock ownership plan

Current QSSP rules encourage employees to invest in the companies they work for, in the form of an additional 25 percentage point deduction when shares are acquired through a stock ownership plan. This measure is designed to encourage employees and employers to jointly develop their companies.

For the purpose of this deduction, an eligible employee usually designates an employee of the corporation or of a subsidiary in which it directly or indirectly owns at least 90 % of the capital stock issued and including full voting rights.

To further enhance collaboration among businesses in a given sector, a change will extend eligibility in stock ownership plans to the employees of a corporation and of the latter's subsidiaries in which it has at least a 50 % interest.

This change applies to eligible shares issued on the day following the Budget Speech.

Modifications to provisions governing penalties

— Relaxation of rules governing the redemption penalty

One of the main objectives of the Québec Stock Savings Plan is to enable companies to increase their permanent capital, an essential adjunct to growth. The penalty imposed when a corporation, which has made a public share offering under the QSSP, purchases or redeems shares is designed to ensure that this objective is attained and that abuses do not occur. This penalty applies when the corporation, in the year in which it has issued shares eligible for inclusion in the QSSP or during the two years following that year, makes purchases of shares or redeems shares other than redeemable shares. The penalty is equivalent to 25 % of the lesser of the average adjusted cost of the shares purchased or redeemed in this way and the adjusted cost of all shares the corporation has issued in conjunction with the QSSP and distributed in Québec.

The QSSP penalty application rule is accompanied by an important exception which enables corporations to make purchases or redemptions within reasonable limits, to ensure that their shares enjoy greater stability. A corporation is therefore not subject to the penalty applying to share purchases or redemptions when, over a 12-month period, it makes purchases or redemptions whose total value is equivalent to less than 5 % of the corporation's paid-up capital with respect to shares included in its permanent capital.

Despite the modification, the penalty is still high in relation to purchases or redemptions effected for business reasons. The rule will be further relaxed so that the penalty does not apply to an amount higher than the average adjusted cost of shares eligible for inclusion in the QSSP issued by the corporation in the year in which shares were redeemed, or during the two years preceding such a redemption.

Consequently, the penalty applying to a corporation which purchases or redeems shares, other than redeemable shares, in the year in which shares eligible for inclusion in the QSSP are issued, or in the two subsequent years, will be equivalent to 25 % of the lesser of :

- ☐ the cost of the shares redeemed, adjusted using the average deduction rate otherwise applicable to any share issued during the year in which the redemption occurred, or the two years preceding this year ; and

- the adjusted cost of shares eligible for inclusion in the QSSP issued during the year in which the redemption occurred, or the two years preceding this year and distributed in Québec.

The previous modification in the penalty will continue to apply. A corporation will not be subject to the penalty with respect to share purchases or redemptions when, during the 12-month period it undertakes share purchases or redemptions whose total value is equivalent to less than 5 % of the corporation's paid-up capital with regard to shares included in its permanent capital. Moreover, under certain conditions, a corporation may still request that the Minister of Revenue suspend this penalty for two years.

This measure has been in force since December 17, 1986.

— ***Tightening of the coverage penalty***

Under rules governing the QSSP, when a corporation purchases or redeems shares it must issue shares which would otherwise have been eligible for inclusion in the QSSP to an amount equivalent to that of the purchase or redemption before the corporation can effect another share offering under the QSSP. This is called the coverage penalty.

As is the case with the redemption penalty, this penalty does not apply when the corporation, during a 12-month period, purchases or redeems shares whose total cost is equivalent to less than 5 % of the corporation's paid-up capital with respect to shares included in its permanent capital.

For technical reasons, some corporations, although they have redeemed shares for amounts exceeding the allowable standard, may continue to issue shares eligible for inclusion in the QSSP. This applies, in particular, to corporations issuing shares eligible for inclusion in the QSSP through dividend reinvestment plans, the distribution of dividends in the form of shares, or share offerings.

To maintain the integrity of the plan and put all corporations on an equal footing, a measure will be introduced to ensure that a corporation which has redeemed shares may not, under a final receipt or an exemption granted before that time, continue to issue shares eligible for inclusion in the QSSP. This restriction will apply starting January 1 of the year following the one in which the corporation redeemed the shares, unless, in the meantime, the corporation has issued shares in accordance with procedures governing the application of the coverage penalty.

On the other hand, the corporation may, under a final receipt or an exemption granted before the time it was subject to the penalty, issue shares eligible for inclusion in the QSSP starting January 1 of the year following the one in which it issued shares in accordance with provisions governing the application of the coverage penalty, unless it has made a new share offering in conjunction with the QSSP in the same year, having satisfied the requirements of the coverage penalty.

— ***Discretionary power of the Minister of Revenue***

A modification will be introduced to enable the Minister of Revenue to exercise his discretionary power with regard to the redemption penalty to cancel or reduce the amount of the penalty when he deems the penalty to be excessive, in light of the circumstances.

Québec Business Investment Companies (QBICs)

Ceiling on deduction raised from 20 % to 30 %

Deduction ceiling raised from 20 % to 30 %

At present, an individual other than a trust who is a shareholder in a Québec Business Investment Company (QBIC) may be entitled to a tax deduction when the QBIC makes an eligible investment. However, the amount which may be deducted in the year is limited to 20 % of the taxpayer's income. The surplus of the deduction which is not claimed in the year of the investment may be carried forward for five years.

To foster investment through QBICs by allowing QBIC shareholders to benefit more quickly from the full tax advantage earned when an investment is made, the ceiling on the deduction the taxpayer in such a company may claim is being raised from 20 % to 30 % of the taxpayer's total income.

This measure will apply starting in the 1989 taxation year.

Increase from $ 1 000 000 to $ 2 500 000 in the investment limit

Under current rules, a corporation in which a QBIC invests may, at the same time, benefit from a maximum of $ 1 000 000 in eligible investments by one or more QBICs. Any investment made by a QBIC in a corporation in excess of this amount is not deemed to be an eligible investment and does not confer on the QBIC shareholders a tax advantage.

This ceiling on investment, which has not been modified since the program was established, seems overly restrictive today, especially in the case of the financing of scientific research and experimental development projects.

To enable QBICs to fully play their role in raising venture capital, the investment limit is being raised from $ 1 000 000 to $ 2 500 000. However, from now on, account will be taken of eligible investments made in associated companies, to prevent the limit from being circumvented through the creation of several corporations.

This measure will apply to any investment made after the day of the Budget Speech.

Investment made following the conversion of debentures or convertible preferred shares

At present, an investment eligible for inclusion in the Québec Business Investment Company program is an ordinary share with full voting rights of the capital stock of a private corporation acquired by the QBIC as first purchaser. A QBIC may purchase such shares following the conversion of debentures or convertible preferred shares. Such a conversion enables the QBIC to make an eligible investment, and the company's shareholders may benefit from a tax deduction at that time.

An individual who is a shareholder of a QBIC may be entitled to a deduction when debentures or convertible preferred shares are converted into an eligible investment, as will henceforth be the case, under certain conditions, under the Québec Stock Savings Plan.

Further clarification will be forthcoming to ensure that the conversion by the QBIC of such debentures or preferred shares does not result in a substantial cash outflow in its favour.

The latter modification will apply to an investment made after the day of the Budget Speech.

Relaxing of rules governing the QBIC/R & D financing vehicle

At present, generally speaking, an additional 50 % or 100 % deduction may only be granted to the shareholders of a QBIC when more than 50 % of the proceeds of the issue of the QBIC are used to finance research and development. These rules will be relaxed, in particular to allow shareholders to benefit from additional deductions with respect to any eligible investment effected by a QBIC to finance scientific research and experimental development. Details of these modifications will be found in the section entitled "The QBIC / R & D financing vehicle".

Expanding research and development

At present, to be eligible and entitle its shareholders to a tax deduction, the investment of a QBIC must be made in a corporation operating primarily in a prescribed sector of activity. Henceforth, research and development activity alone will be eligible under the QBIC program. Details of this measure will be found in the section entitled "The QBIC / R & D financing vehicle".

Encouraging investment in the regions

At present, an additional 25 % deduction is granted to the individual shareholders of regional QBICs to take into account the scope of the challenges regional firms must face. The recognized regions are Gaspésie--Îles-de-la-Madeleine, Bas-Saint-Laurent, Saguenay--Lac-Saint-Jean, the Outaouais (except the municipalities of Aylmer, Hull and Gatineau), Abitibi-Témiscamingue, Côte-Nord, and the Nord du Québec.

Only QBICs which invest exclusively in these regions are eligible for this deduction ; it is not available to the shareholders of QBICs which invest in these regions and elsewhere.

Henceforth, to channel more venture capital into these regions, any investment which is otherwise eligible made in these regions by a non-regional QBIC will entitle its shareholders to the additional 25 % deduction covering investments in such regions, bringing the total deduction with respect to such investments to 125 %. Further details on this measure can be found in the section entitled "Support for regional vitality".

Expanding freshwater aquaculture

Marine aquaculture is currently eligible for inclusion in the QBIC program. To foster the economic growth of the regions, a corporation operating primarily in the realm of freshwater aquaculture will henceforth be deemed a corporation eligible to receive investments from QBICs. Details on this measure appear in the section entitled "Support for regional vitality".

Expansion of rules governing stock ownership plans

At present, a corporation eligible for inclusion in the QBIC program may set up a plan enabling its employees and those of a subsidiary in which it owns at least 90 % of the issued capital stock with voting rights to benefit from an additional deduction of 25 %. Stock ownership plans are designed to increase collaboration between employers and employees and foster the development of businesses.

To enable the employees of other subsidiaries of such an eligible corporation to take advantage of this measure, the rules will be relaxed to enable any employee of a subsidiary in which the corporation owns at least 50 % of the capital stock to be deemed an employee eligible to participate in the stock ownership plan set up by the eligible corporation.

This measure will apply starting on the day following the Budget Speech.

Control of a QBIC by a public venture capital corporation

At present, a QBIC must be a private corporation whose activities focus primarily on owning shares in the capital stock of other corporations.

A corporation controlled directly or indirectly by a public corporation may not be considered a private corporation for tax purposes.

Moreover, a public or private venture capital corporation whose activities centre mainly on acquiring shares in the capital stock of other corporations and granting the latter non-guaranteed loans, and most of whose investments are made among corporations not listed on the stock exchange, may generally benefit from a tax credit equivalent to 20 % of the amount of its adjusted investment in an eligible investment effected by a QBIC of which it is a shareholder.

When such a public corporation takes control of a QBIC, the latter is no longer eligible because it falls under the control of a public corporation.

To encourage the creation of QBICs and treat on an equal footing public and private venture capital corporations, a QBIC controlled by such a public corporation may continue to benefit from the advantages inherent in the Québec Business Investment Company program.

This measure has been in force since May 13, 1988.

Measures designed to preserve the integrity of the program

— Value of shares

The QBIC program was introduced to reduce obstacles encountered by Québec small and medium-sized businesses when raising external equity. It also enables company owners to more readily find investors wishing to participate in the growth of their firms, and share risks.

At present, the Société de développement industriel du Québec may refuse to validate an investment which, although it adheres to the letter of the law, does not, in the SDI's opinion, attain the objectives pursued by the QBIC program.

To ensure the integrity of the program, it is essential to fairly divide risk between investors and company owners. Consequently, the Société de développement industriel du Québec may henceforth deem an investment to be ineligible when the price of the shares purchased by the QBIC is appreciably higher than the value of a share evaluated at the net tangible value issued by the eligible corporation prior or subsequent to the investment.

This measure applies to any investment made by a QBIC starting on the day after the Budget Speech.

— Penalties

– Developing corporations

At present, a developing corporation must operate in an eligible sector within four months at the latest following the QBIC's investment in such a corporation. The Société de développement industriel du Québec may, however, extend this deadline for as long as it deems necessary. To ensure that developing corporations comply with this obligation, a penalty equivalent to 30 % of the total amount of the investment applies when, at the conclusion of the period of grace the SDI has granted the corporation, the latter is still not operating in an eligible sector.

This measure will apply starting on the day following the Budget Speech.

– Investments in the regions

To ensure that the additional deduction with respect to investments in the regions fosters regional economic development, the corporation in which the investment is made must, within 24 months of the investment, have paid more than 75 % of its wages to the employees of an establishment belonging to the corporation, located in one of the regions. To ensure compliance with this rule, a penalty equivalent to 10 % of the total amount of the investment is being introduced.

This measure will apply starting on the day after the day of the Budget Speech.

Other technical modifications

Other technical modifications will be introduced, in particular those outlined in the following sections.

— Prior authorization of the SDI

– Utilization of proceeds from the investment

At present, QBIC program rules stipulate that the proceeds of an investment a QBIC makes in an eligible corporation may not be used solely to acquire the shares of other corporations.

However, the eligible corporation may obtain prior authorization from the Société de développement industriel du Québec to effect such a transaction.

Moreover, under certain circumstances, the Société de développement industriel du Québec may authorize a corporation to cease operating in an eligible sector. To this end, the eligible corporation must also obtain prior authorization ; the corporation must show the SDI that, within two years of making the investment, it cannot operate in an eligible sector to ensure its profitability.

Failure to obtain such prior authorization leads to a penalty, designed to ensure that program rules are not circumvented.

To avoid automatically subjecting an eligible corporation to this penalty simply because it has failed to request prior authorization, the Société de développement industriel du Québec may, under certain circumstances, grant a posteriori authorization respecting such transactions.

These measures will apply starting on the day following the day of the Budget Speech.

– *Transactions which create a non-arm's-length relationship*

An eligible corporation and a QBIC must maintain an arm's-length relationship during the two years following the investment, except with the authorization of the Société de développement industriel du Québec, when this relationship results from a transaction designed to prevent the bankruptcy of the eligible corporation. To ensure that this exception applies only to the cases for which it was introduced, it will be specified that this transaction must have first been authorized by the Société de développement industriel du Québec which will nonetheless be empowered to authorize a posteriori such a transaction, under certain circumstances.

This measure will apply starting on the day following the day of the Budget Speech.

– *Corporations experiencing financial problems*

Under current rules, an eligible corporation which, because of financial problems, ceases to operate its business within two years of the investment, may be liable to a penalty. The rule is being relaxed to allow such a corporation to cease operating its business without being penalized, although it must first obtain the authorization of the Société de développement industriel du Québec.

This measure will apply starting on the day following the day of the Budget Speech.

— *Merging of an eligible corporation*

At present, a QBIC which invests in an eligible corporation must preserve the shares obtained in exchange for this investment for at least two years, failing which it may incur a penalty equivalent to 30 % of the amount of the investment. The shares of an eligible corporation which merges with another corporation are replaced by the shares of the new corporation resulting from the merger, which could lead to the QBIC's being penalized. Rules will be introduced to avoid imposing such a penalty under the circumstances when the new corporation resulting from the merger otherwise satisfies the requirements of the QBIC program.

This measure will apply to the shares of an eligible corporation replaced any time after the day of the Budget Speech.

— *Purchase of a company's assets*

The proceeds of a QBIC's investment in an eligible corporation may not be used by such a corporation to purchase the shares of other corporations, except with the prior authorization of the Société de développement industriel du Québec. This requirement does not prevail when the eligible corporation acquires all or nearly all of the assets of another corporation. To ensure that the acquisition by the eligible corporation of another company through the purchase of its shares or assets is treated identically, the proceeds of the investment may henceforth be used to purchase all or nearly all of the assets of a company only with the prior authorization of the Société de développement industriel du Québec.

Furthermore during the two years preceding and the two years following the investment, the eligible corporation may not effect any substantial disbursement in favour of its shareholders or the shareholders of the QBIC which effected the investment. Changes will be made to prevent these rules from being circumvented when the shareholders of the QBIC are also the shareholders of a corporation which sells all or nearly all of its assets to the eligible corporation.

These measures apply to all investments made after the day of the Budget Speech.

Cooperatives

125 % deduction for the employees of cooperatives participating in the Cooperative Investment Plan (CIP)

Employee – CIP : 125 % deduction

At present, the employees of a cooperative who purchase shares in their cooperative under the Cooperative Investment Plan (CIP) may benefit from a 100 % deduction when calculating their income.

The eligible employees of a QSSP or QBIC stock ownership plan who purchase shares in their employer's business may, under certain conditions, take advantage of an additional 25 % deduction.

To foster greater collaboration between employees and employers in developing cooperatives, their efficiency and productivity, an additional 25 % deduction, similar to the additional QSSP and QBIC deductions, is being introduced and will apply to the eligible shares an employee purchases after the day of the Budget Speech under any employee – CIP established after that time.

Cooperatives eligible to participate in the CIP may set up such a plan which will enable the employees and managers of a cooperative, including the members of workers' cooperatives, to benefit from this tax advantage. To satisfy eligibility requirements, such a plan must generally satisfy the same conditions as those set forth under the QSSP stock ownership plan, in particular :

- ☐ it must be intended solely and without exception for the employees and managers of the cooperative ; and
- ☐ it must make possible the purchase of shares in the cooperative, including a loan, with or without interest, repayable over a set period, through payroll deductions, except when the cooperative is not authorized to do so under the Cooperatives Act.

In this way, the employees and members of workers' cooperatives who purchase shares eligible for inclusion in the CIP under an employee – CIP program will benefit from a total tax deduction equivalent to 125 % of their investment.

Relaxation of the redemption penalty when a cooperative winds up its affairs

A cooperative must satisfy certain conditions before redeeming shares eligible for inclusion in the CIP. One requirement stipulates that the cooperative must increase its reserve, as it appears in its financial statements, during the years preceding the year in which the shares eligible for inclusion in the CIP were issued, for an amount equivalent to at least 50 % of the amount of the proposed redemption. When a cooperative redeems shares without satisfying the requirement that it increase its reserve, it incurs a penalty equivalent to 50 % of the redemption.

A cooperative may have to wind up its operations, especially because of financial problems, and be liquidated without being able to increase its reserve. Under the circumstances, the cooperative which redeems its shares eligible for inclusion in the CIP must pay the penalty.

To take into consideration cooperatives in the process of being wound up, a modification will be introduced to rules governing the application of the penalty. The penalty respecting the increase in the reserve will not apply to cooperatives being liquidated when a prior ruling in this respect is requested from the Minister of Industry, Commerce and Technology and, in the latter's opinion, the cooperative has operated for a reasonable period since its shares eligible for inclusion in the CIP were issued.

This measure will apply to liquidations which occur after the day following the day of the Budget Speech.

Patronage dividends of workers' cooperatives

At present, tax treatment of the sharing of surpluses from the fiscal years of the members of workers' cooperatives obliges the cooperative to consider the payments resulting therefrom as income from an office or employment. As a result, such cooperatives and their members must assume tax charges, such as contributions to the Health Services Fund and the Québec Pension Plan, applicable to this type of income.

To take into account the special method of operation of cooperatives, from now on, the disbursement of such surpluses among the employees of these cooperatives will be treated as taxable patronage dividends and not as income from an office or employment.

This modification will apply to surpluses distributed after the day of the Budget Speech.

Tax deductions with respect to the Fonds de solidarité des travailleurs du Québec (FTQ)

At present, the Fonds de solidarité des travailleurs du Québec (FTQ) must, like any other corporation, pay income tax and the tax on capital. To take into account the special objectives of the Fonds, a measure will be introduced to the effect that the Fonds will not have to pay income tax and tax on capital. This modification will take the form of a deduction when taxable income is calculated for the purpose of income tax, and a deduction when calculating paid-up capital for the purpose of the tax on capital.

This measure applies to income tax and the tax on capital payable with regard to taxation years or, as the case may be, the Fonds' fiscal years ending after the day of the Budget Speech. For the taxation year or, as the case may be, the Fonds' fiscal year which overlaps the day of the Budget Speech, this measure will apply in proportion to the number of days in the taxation year following the day of the Budget Speech.

1.5 Fostering regional vitality

Road network investment

$ 30 000 000 for the road network

The government has always demonstrated its concern over the deterioration of road infrastructures, which is largely due to the increased volume of traffic and loads on this network. For this reason, it was announced in the 1987-1988 Budget Speech that an additional $ 200 000 000 would be invested in highway safety measures throughout Québec between 1987-1988 and 1989-1990.

Despite these efforts, road maintenance, repair and reconstruction work must be stepped up.

For this purpose, $ 30 000 000 will be added in 1989-1990 to the appropriations allocated to the ministère des Transports.

Assistance for waterworks and sewer system infrastructures

Additional appropriations for the waterworks and sewer system assistance program (AIDA)

$ 25 000 000 for the AIDA program

The 1988-1989 Budget Speech introduced a new financial assistance program for waterworks and sewage system construction (AIDA). This program is intended for municipalities with fewer than 7 500 inhabitants. The following projects are eligible for assistance under this program : waterworks and sewer system installation projects, groundwater exploration, leak detection projects and improvements to the existing water supply system. In the case of groundwater and leak detection projects and improvements to existing systems, the government subsidizes up to 50 % of the eligible costs of the work undertaken. Financial assistance for new water supply and sewage facilities applies to capital expenditures and is attributed according to the property tax base.

An additional $ 25 000 000 will be allocated to pursuing this program, bringing the total financial assistance awarded by the government up to $ 75 000 000 over a five-year period. As a result, this program will benefit more municipalities and foster regional economic development. Given the time needed to install these infrastructures, no additional appropriations will be necessary in 1989-1990.

Solving drinking water supply problems in the Îles-de-la-Madeleine

$ 8 800 000 for the Îles-de-la-Madeleine

Obtaining an adequate supply of drinking water poses serious problems in the municipalities of the Îles-de-la-Madeleine. Available supplies are jeopardized by bacteriological contamination and seawater pushing its way up through the water table. Without financial assistance from the government, residents would have to pay additional taxes, an expense they can hardly afford.

Given the urgency of the situation and the tremendous costs involved, the government will provide $ 1 000 000 in special financial assistance in 1989-1990 and $ 7 800 00 in 1990-1991 for boring drinking water supply wells and installing sewer systems around existing wells in certain municipalities of the Îles-de-la-Madeleine. Additional appropriations will therefore be allocated to the ministère des Affaires municipales for this purpose.

Investing in recreational facilities

Upgrading park and reserve facilities

$ 3 700 000 to maintain and develop recreational facilities

Recreational facilities play an important role in the economy of municipalities and regions. Their development is often crucially important to job creation.

Québec has 16 parks and 18 wildlife reserves designed to promote a wide range of outdoor activities. To assure required services, the government must maintain cottages, service buildings and several kilometres of access roads. Recurrent appropriations of $ 1 700 000 will be added, starting in 1989-1990, to the program for repairing these facilities.

Assistance for developing recreational facilities

Every year the government receives a large number of requests for financial assistance for carrying out projects in the field of recreation, sport and outdoor activities. High expectations are expressed with regard to this sector at regional socioeconomic conferences.

To meet these expectations and promote job creation, particularly in the regions, the recreational facilities assistance program (PADEL) will receive an additional $ 2 000 000 in 1989-1990 ; this amount is over and above the additional $ 3 500 000 announced when the estimates were tabled, and brings additional appropriations for fiscal 1989-1990 up to $ 5 500 000.

Protection of the Atlantic salmon

The policy of the ministère du Loisir, de la Chasse et de la Pêche with regard to salmon fishing is aimed at conserving stocks. Since 1972, the number of commercial fishermen has been reduced by 127. Since commercial salmon fishing will have to be prohibited for an additional five-year period, the government is offering to buy back the equipment and privileges of the remaining 130 commercial salmon fishermen. This measure will help increase Atlantic salmon stocks while compensating fishermen for current fishing restrictions.

Assistance for the forest sector

$ 18 500 000 for forest management

The forest is a natural resource that generates thousands of jobs throughout Québec. Its conservation is dependent on the reforestation and management of private and public forests.

The public forests management program is based on the sharing of responsibility by the government and the forest industry. The various projects proposed under this program presuppose that 180 million seedlings will be planted in public forests to ensure their regeneration. Given the scale of the undertaking (land preparation, seedling production, seed management, etc.), an additional $ 10 000 000 will be allocated in 1989-1990 to the public forest management program of the ministère de l'Énergie et des Ressources.

Private forests are considered to play an essential role in supplying the forest industry. Reforestation and silvicultural work supplement management efforts in public forests. The government will therefore allocate an additional $ 5 000 000 in 1989-1990 to promote private forest management.

The experimental forestry employment program launched in 1987 has trained specialized workers in the fields of forest management and regeneration. Acting on its commitment made at the recent Gaspésie — Îles-de-la-Madeleine socioeconomic conference, the government is allocating, as promised, $ 10 000 000 to forest management in this region over the next four years. In this way, additional appropriations of $ 2 500 000 will be allocated for Gaspésie and the Îles-de-la-Madeleine in 1989-1990 as well as for each of the next three fiscal years. A total of $ 4 000 000 has also been earmarked for the Bas-Saint-Laurent region for the same purpose, including $ 1 000 000 in 1989-1990. These appropriations will be assigned to the ministère de l'Énergie et des Ressources.

Job creation in Gaspésie and the Îles-de-la-Madeleine

$ 6 000 000 for job creation

The Gaspésie and Îles-de-la-Madeleine region continues to be hard hit by unemployment. For the past two years, the government has devoted considerable effort and resources to remedying this situation, in particular through a special job creation program. To continue these efforts, an additional $ 6 000 000 will be allocated to the program and will be divided equally between the ministère du Loisir, de la Chasse et de la Pêche and the ministère des Transports. These funds will result in the creation of numerous jobs for the maintenance and repair of recreational, tourist and transportation infrastructures.

Fiscal measures

Tax exemption for blueberry-based alcoholic beverages

At the present time, retail sales and other taxes are usually levied on alcoholic beverages. However, these taxes do not apply to purchases of aperitif cider or cider with a low or high alcohol content.

Blueberry-based beverages exempt from tax

To promote the marketing of blueberry-based alcoholic beverages, and enhance regional vitality as the measures taken in the cider industry have done, the retail sales and other taxes on alcoholic beverages will be modified to provide for an exemption on the purchase of blueberry-based alcoholic beverages, excluding artificially flavoured alcoholic beverages. To be covered by the exemption, the beverages must be produced by the fermentation of blueberries in a proportion of at least 60 % of the alcohol content of such beverages or contain a volume of at least 80 % of liquid blueberry extract.

This measure will apply to all purchases of blueberry-based alcoholic beverages made after the day of the Budget Speech.

Over an entire year, this exemption should place an additional $ 1 500 000 at the disposal of this industry.

Regional investment incentives through QBICs

At present, individual shareholders in regional QBICs are eligible for an additional deduction of 25 % to take into account the formidable challenges faced by regional business firms. In addition, the minimum obligatory paid-up capital of such companies is $ 50 000 instead of the $ 100 000 required of other QBICs.

To be recognized as a regional QBIC, a company must engage in primarily making investments consisting only in purchasing capital stock in small and medium-sized businesses operating in the following regions : Gaspésie — Îles-de-la-Madeleine, the Bas-Saint-Laurent, Saguenay — Lac-Saint-Jean, Abitibi- Témiscamingue, Côte-Nord, Nord du Québec, and Outaouais, except for the municipalities of Aylmer, Hull and Gatineau.

125 % deduction for investments in the regions

Under the present program, only the shareholders of a QBIC whose sole objective is to invest in these regions are eligible for an additional 25 % deduction with regard to such investment.

From now on, to channel more venture capital into the above-mentioned regions, any already eligible investment made in these regions by a QBIC will entitle its shareholders to the additional 25 % deduction. In this way, a shareholder of a QBIC which has not been set up specifically for investment in these regions will also be eligible for an additional 25 % deduction on investments made there. Thus, the total deduction granted to QBIC shareholders who invest in these recognized regions will be 125 %. Moreover, the minimum paid-up capital of a QBIC which makes a regional investment will continue to be $ 50 000 instead of the $ 100 000 required of QBICs that invest in regions other than those specified above.

This measure will be applicable to investments made after the day of the Budget Speech.

Broadening the QBIC program to include freshwater aquaculture

One of the objectives of the QBIC program is to give small and medium-sized businesses access to external sources of financing to ensure their development. To promote regional economic growth through companies involved in marine aquaculture, a promising sector which is introducing new production technologies, a QBIC may invest in a corporation whose activities are principally related to this sector.

QBICs may invest in freshwater aquaculture

However, on account of its enormous potential for development, freshwater aquaculture has just as much to offer at the regional level as marine aquaculture. To enhance the vitality of regional entrepreneurship, a corporation whose activities are primarily related to freshwater aquaculture will now be considered eligible for the QBIC program. The specifics of this measure to broaden the scope of the program to include freshwater aquaculture will be defined by the Société de développement industriel du Québec in collaboration with the ministère de l'Agriculture, des Pêcheries et de l'Alimentation.

This measure will apply to all eligible investments made by a QBIC after the coming into effect of the enabling regulation.

In addition, marine and freshwater aquaculture firms will be eligible to participate in the risk-sharing loan program of the Société de développement industriel du Québec.

2. The tax system as it pertains to individuals and families

The government's objectives concerning the taxation of individuals and families since 1986 form the background to the 1989-1990 Budget. The first objective was to improve the competitiveness of Québec's tax system compared to the systems of its principal trading partners. The second objective was to encourage members of low-income households to work by increasing their disposable income on entering the labour market and raising the levels at which they begin to pay taxes, and by implementing a new income security plan which promotes the employability of social aid recipients. Finally, the government has sought to increase financial support for families with children, in particular by implementing a tax system that is fairer for families.

The measures announced in this Budget Speech regarding the tax and transfer systems as they pertain to individuals will make it possible to continue to pursue these objectives. These measures include indexing the benefit scales of the Parental Wage Assistance (PWA) and Employment Incentives (EI) programs by 4.9 % effective January 1, 1990, and several tax credits, in particular those for families. Tax thresholds for families will also be increased to match the increase in PWA program benefits. For families, additional support will be provided by increasing the allowance for newborn children for second and subsequent children and by extending the downpayment assistance program to families with one child.

Gains of $ 260 000 000 in 1990, of which 87 % for families

Over a full year, these measures will add $ 260 000 000 to the disposable income of households. Of this amount, $ 226 000 000 or about 87 % of the total will be directed to families with children. Of a total of $ 260 000 000, $ 186 000 000 or about 72 % of the total will benefit households with income of less than $ 40 000. Families with children and low-income households will thus derive the greatest benefit from these measures.

Indexing based on recognized needs in 1990

Indexing at 4.9 %

The amounts representing essential needs recognized in the tax system and in the PWA and EI programs will be indexed by 4.9 % in 1990 to reflect the increase in the cost of living during 1989.

Indexing of EI benefit scales

$ 54 000 000 for beneficiaries of the EI program

To ensure that EI program beneficiaries maintain their purchasing power in 1990, benefit scales will be indexed by 4.9 % effective January 1, 1990. Since the anticipated inflation rate is higher, as a result of the sales tax increases introduced in the April 1989 federal Budget, the increase in benefit scales will fully offset their impact. Consequently, the increases in the federal refundable sales tax credit announced in the federal Budget will be taken into account in computing these benefits. This will avoid any duplication of compensation which could result from the increased federal credit and the full indexing of Québec's benefits, while protecting the real disposable income of this group of social aid recipients. This measure will provide about 235 000 households with a total of $ 54 000 000 in 1990.

The appropriations of the ministère de la Main-d'oeuvre et de la Sécurité du revenu will be increased by $ 11 000 000 for 1989-1990 to provide for this indexing.

Furthermore, benefits under the Financial Support Program for persons who are not fit to work will be raised substantially in 1990, as provided in the reform of income security. Program benefits will subsequently be indexed, as provided for in the existing regulations.

Harmonization and indexing of the PWA program

The PWA program must be modified to bring it into line with the reform of social aid which is to come into effect on August 1, 1989. These changes will be made on January 1, 1990, i.e. at the beginning of the first full year of this new income security policy.

First, because the benefits and exemptions for employment income are greater than under the previous social aid program, the EI program will pay larger benefits to families with low employment income. Under income security legislation, PWA program benefits will be adjusted automatically to the new benefit scales to ensure that the disposable income of families receiving PWA benefits remains constant.

For their part, the measures included in the Budget are designed to coordinate the structure of the PWA program with that of the EI program. In this way, the income level at which benefits begin will be harmonized with the exit threshold for employment income exemptions under the EI program, by adjusting family thresholds and benefit reduction rates for PWA beneficiaries eligible under the EI program. As a result, for the vast majority of families, the zone in which total benefits were reduced by employment income dollar for dollar since they did not receive PWA benefits will be eliminated. This change will produce substantial gains for families with low employment income. For instance, this change will add $ 554 to the disposable income of a couple with two children and earning $ 10 000; for $ 5 000 of income, the gain will be $ 1 078.

Finally, the family thresholds of the PWA program will be indexed by 4.9 % in the same way as EI program benefits. The income threshold at which PWA program benefits cease for a couple with two children will rise from $ 21 892 in 1989 to $ 23 231 in 1990.

Gain of $ 8 000 000 for families receiving PWA benefits

As a result of these changes, the PWA program will be more effective in providing low-income families with an incentive to enter or remain in the labour market, and in providing additional financial support for them. The changes will produce an additional $ 8 000 000 for families receiving benefits under the program in 1990.

For 1989-1990, $ 2 000 000 will be added to the appropriations of the ministère de la Main-d'oeuvre et de la Sécurité du revenu for the purposes of the PWA program.

THRESHOLDS AT WHICH ELIBIBILITY FOR PWA PROGRAM ENDS (in dollars)

	1989	1990
Couple with two children, 6-11		
☐ one work income	21 892	23 231
☐ two work incomes		
– before deduction for child care expenses	22 393	23 763
– after deduction for child care expenses	26 668	28 272
Couple with one child under 6		
☐ one work income	20 389	21 509
☐ two work incomes		
– before deduction for child care expenses	20 852	21 997
– after deduction for child care expenses	25 127	26 506
Single-parent family with one child under 6		
– before deduction for child care expenses	15 946	17 184
– after deduction for child care expenses	20 115	21 579

Note : For couples with two work incomes, one spouse earns 60 % of household income and the other 40 %.

Increase in tax thresholds

Tax thresholds for families with children will be adjusted upward to reflect the increase in benefits under the PWA and EI programs. To do so, the tax reduction for families will be increased, from $ 970 for a two-parent family in 1989 to $ 1 180 in 1990. A couple with two children will therefore begin to pay tax at an income of $ 23 234 in 1990, compared to $ 21 894 in 1989. This will maintain the coordination of the tax and transfer systems.

COMPARISON OF INCOMES AT WHICH INCOME TAX IS PAYABLE (QUÉBEC) (in dollars)

	Taxation year	
	1989	1990
Couple with two children 6-11		
☐ one work income	21 894	23 234
☐ two work incomes		
– before deduction for child expenses	24 030	25 458
– after deduction for child care expenses	28 306	30 018
Couple with one child under 6		
☐ one work income	20 401	21 610
☐ two work incomes		
– before deduction for child care expenses	22 317	23 661
– after deduction for child care expenses	26 593	28 170
Single-parent family with one child under 6		
– before deduction for child care expenses	15 947	17 190
– after deduction for child care expenses	20 116	21 585
Childless couple under 65		
– one work income	13 462	13 513
– two work incomes	13 065	13 094
Single person under 65		
– living alone	8 400	8 479
– sharing a dwelling unit	7 277	7 304

Note : For couples with two incomes, one spouse earns 60 % of the household income and the other, 40 %.

Indexing of certain tax credits

The amounts used to compute personal tax credits are based on the essential needs recognized under the new income security policy and, in 1990, will follow the indexing announced for the PWA and EI programs. Consequently, the amounts of essential needs recognized for purposes of computing personal tax credits for dependent children, for other dependants, for single-parent families and for persons living alone, as well as the maximum amount of eligible taxes entitling the taxpayer to a property tax refund will be increased by 4.9 % in taxation year 1990. For instance, the amount of essential needs recognized for dependent children will be increased to $ 2 330 for the first child and to $ 2 015 for each subsequent child, so that the tax credit for the first dependent child will rise from $ 446 in 1989 to $ 466 in 1990, while the credit for each subsequent child will move up from $ 379 to $ 403. Furthermore, the amounts used to compute the basic personal tax credit and the tax credit for a married person will not change, since the amounts for 1989 are sufficient to cover recognized essential needs after indexing for taxation year 1990. In addition, since the cumulative amount of recognized essential needs for a first dependent child in post-secondary studies is equal to the basic amount recognized for essential needs, i.e. $ 5 280, the amount of recognized essential needs for post-secondary studies will be set at $ 1 475 per term beginning in 1990.

Greater tax reduction for families

Concerning the tax reduction for families, the amounts of the tax credit, which for 1989 are $ 970 for a two-parent family and $ 725 for an individual of a single-parent family not sharing a dwelling with another adult, will be increased to $ 1 180 and $ 925 respectively in taxation year 1990. Also, beginning in the same year, the amount of the tax reduction for an individual in a single-parent family sharing a dwelling with another adult will be raised to $ 710.

To establish the amount of the tax reduction for families, the total income of the applicant and that of his spouse, less the amount of recognized essential needs for the personal tax credits claimed, are taken into account. In addition, to reflect the zero tax thresholds, an additional deduction is provided. This deduction amounts to $ 6 330 for couples, $ 5 340 for an individual of a single-parent family not sharing a dwelling with a person other than a dependent child, and $ 4 115 for an individual of a single-parent family sharing a dwelling at any time during the year with a person other than a dependent child. These amounts will be raised to $ 7 250, $ 6 280 and $ 5 300 respectively, and will be taken into account for purposes of the property tax refund. In addition, the maximum amount of property taxes eligible for this refund will be raised from $ 1 000 to $ 1 050 in 1990.

The following table shows the amounts of the new personal tax credits, the tax reduction for families and the property tax refund.

4.9 % indexation of family allowances

Furthermore, the amounts of the basic family allowances and allowances for young children will also be indexed by 4.9 % on January 1, 1990. An amendment will also be introduced into the Regulation respecting family allowances to set the index rate for additional allowances for handicapped children at 4.9 %. The amounts of monthly allowances to be paid in 1990 are shown in a table in the following section.

MAIN AMOUNTS FOR RECOGNIZED ESSENTIAL NEEDS AND THEIR TAX CREDIT VALUE, TAX REDUCTION FOR FAMILIES AND PROPERTY TAX REFUND (in dollars)

	Taxation year 1989		Taxation year 1990	
	Amount for recognized essential needs	Value of tax credit [1]	Amount for recognized essential needs	Value of tax credit [1]
1. Recognized essential needs				
☐ basic	5 280	1 056	5 280	1 056
☐ person living alone	900	180	940	188
☐ married person	5 280	1 056	5 280	1 056
☐ dependent children [2]				
– general				
first child	2 230	446	2 330	466
second child and subsequent children	1 895	379	2 015	403
– for a single-parent family [3]	1 115	223	1 165	233
☐ other dependants [4]	1 895	379	2 015	403
	Additional deduction for tax reduction purposes	**Value of tax reduction**	**Additional deduction for tax reduction purposes**	**Value of tax reduction**
2. Tax reduction for families				
☐ Couple with children	6 330	970	7 250	1 180
☐ Single-parent family				
– living alone	5 340	725	6 280	925
– sharing a dwelling unit	4 115	485	5 300	710
3. Property tax refund				
☐ Maximum eligible property tax	1 000		1 050	
☐ Value of property tax included in an adult's essential needs	260		260	

1 The amounts for recognized essential needs have been converted into tax credits, at the rate of 20 %.

2 In 1989, an additional credit of $ 305 per term is granted, for a maximum of two terms, for a dependent child in post-secondary school. In 1990, a $ 295 credit will be granted for each term, to a maximum of $ 590. When this credit is added to the dependent child credit, the maximum amount of the credit granted in 1990 for a dependent child in post-secondary school will be equal to or higher than that granted in 1989.

3 The tax credit for single-parent families is equal to 50 % of the credit for the first dependent child, and is added to it.

4 Other dependants include anyone 18 years old or over related to the taxpayer by blood, marriage or adoption.

Additional support for families

Allowances for newborn children

Currently, a family in Québec receives an allowance of $ 500 on the birth of each of the first two children. For each subsequent child, the allowance is $ 3 000, paid over the two years following the child's birth, in eight quarterly instalments of $ 375.

To provide more assistance for families when a child is born, the allowances for second and subsequent children will be increased starting in May 1989.

$ 500 more for a second child

The allowance of $ 500 for the birth of the second child will be raised to $ 1 000, payable in two instalments of $ 500. The first instalment will be paid when the child is born, and the second on the child's first birthday.

$ 1 500 more for a third child

The allowance of $ 3 000 for the third and each additional child will be increased to $ 4 500. It will be paid over the three years following the birth of the child, in twelve quarterly instalments of $ 375.

Families will receive additional support totalling $ 34 000 000 over a full year as a result of these measures.

FAMILY ASSISTANCE ALLOWANCES BEFORE AND AFTER BUDGET SPEECH

Allowance for newborn children			Monthly allowance				
				1989		1990	
Rank of child	Before Budget	After Budget	Age :	Under 6 years	6 to 17 years	Under 6 years	6 to 17 years
First	$ 500	$ 500	Family allowance :	$ 9.31	$ 9.31	$ 9.77	$ 9.77
			Allowance for young children :	$ 8.34		$ 8.75	
				$ 17.65		$ 18.52	
Second	$ 500	$ 1 000 ($ 500 at birth and $ 500 on 1st birthday)	Family allowance :	$ 12.41	$ 12.41	$ 13.02	$ 13.02
			Allowance for young children :	$ 16.67		$ 17.49	
				$ 29.08		$ 30.51	
Third	$ 3 000	$ 4 500	Family allowance :	$ 15.51	$ 15.51	$ 16.27	$ 16.27
	(8 quarterly payments of $ 375)	(12 quarterly payments of $ 375)	Allowance for young children :	$ 41.67		$ 43.71	
				$ 57.18		$ 59.98	
Fourth and subsequent	$ 3 000	$ 4 500	Family allowance :	$ 18.58	$ 18.58	$ 19.49	$ 19.49
	(8 quarterly payments of $ 375)	(12 quarterly payments of $ 375)	Allowance for young children :	$ 41.67		$ 43.71	
				$ 60.25		$ 63.20	

Downpayment assistance program for a residence

The 1988-1989 Budget introduced a program to help families make the downpayment required for the purchase of their first principal residence.

The program, lasting three years, is designed for families with two or more children under 18. The applicant must not have previously owned a principal residence, while the spouse must not have owned a principal residence for the preceding five years. The government's assistance consists in guaranteeing, for a maximum of seven years, a loan obtained from a financial institution, and in paying the interest on this loan over the same period. The amount guaranteed equals 10 % of the mortgage amount, up to a maximum of $ 7 000. All principal residences, whether newly constructed or existing housing, are eligible under the program, provided the sale price does not exceed $ 95 000, including the land, and provided a sale agreement was signed on or after May 13, 1988.

The program has achieved its objective of assisting families to own their first home. Between May 12, 1988 and April 28, 1989, more than 6 000 families applied and 4 525 of them received a guaranteed loan, thus becoming owners of their first principal residence.

Families with one child now eligible

To enable more families to benefit from the program, two changes have been introduced. First, the maximum price of an eligible residence, including the land, will be raised to $ 100 000. Second, the program will be broadened to include families with one child under 18. These changes will cover sale agreements concluded after midnight of the evening of the Budget Speech, for an eligible principal residence.

Benefits for families under this measure are estimated at $ 4 000 000 in 1989 and $ 10 000 000 in 1990. For 1989-1990, $ 6 000 000 will be added to the appropriations for the ministère des Affaires municipales.

Impact of the measures

On financial support for families

The new measures the government is introducing in this Budget will help to improve financial assistance for families with children. In 1990, financial support for a family with an income of $ 25 000 will rise by $ 277 for one child, from $ 1 295 to $ 1 572. This family will receive additional financial support of $ 322 if it has two children, and $ 385 if it has three.

Increase of $ 208 000 000 in financial support for families

The measures introduced in this Budget will therefore increase the government's financial support for families in Québec by $ 208 000 000 in 1990, raising it to $ 1 790 000 000.

IMPACT OF BUDGET ON GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN COUPLE WITH ONE WORK INCOME TAXATION YEAR 1990 (in dollars)

	Support before budget	Increase resulting from budget	Support after budget
$ 25 000 work income			
☐ one child	1 295	277	1 572
☐ two children	1 996	322	2 318
☐ three children	4 377	385	4 762
$ 40 000 work income			
☐ one child	706	276	982
☐ two children	1 407	322	1 729
☐ three children	3 788	384	4 172

Note 1 : In this example, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Where applicable, Québec financial support includes PWA benefits, the tax reduction for dependent children, family allowances and all other allowances.

Note 3 : Where applicable, the 1990 structure takes the anticipated Consumer Price Index into account.

On taxpayers

Increase of $ 260 000 000 in disposable household income in 1990

The new measures pertaining to individuals and families will raise disposable household income by $ 260 000 000 in 1990. Most of the gains arise from the indexation of amounts representing essential needs, amounting to $ 216 000 000. Measures providing additional support for families total another $ 44 000 000, including the changes to the allowances for the birth of the second child ($ 15 000 000) and for third and subsequent children ($ 19 000 000), as well as the broadening of the downpayment assistance program for a residence to include families with one child ($ 10 000 000). Measures providing families with additional support will take effect as of May 1989 and will amount to $ 25 000 000 this year.

IMPACTS ON HOUSEHOLD DISPOSABLE INCOME OF MEASURES PERTAINING TO INDIVIDUALS AND FAMILIES
(in millions of dollars)

	Taxation year	
	1989	1990
Indexing of recognized essential needs at 4.9 % in 1990		
☐ Taxation system		139
☐ EI and PWA		62
☐ Familiy allowances and allowances for young children		15
Subtotal : indexing		216
Additional support for families		
☐ Allowances for newborn children		
– for the second child	9	15
– for third and subsequent children	12	19
☐ Downpayment assistance for a residence extended to families with one child	4	10
Subtotal : additional support for families	25	44
Total Impact	**25**	**260**

On certain typical families

Gain of $ 1 131 for two-parent families with a $ 10 000 income

The measures pertaining to individuals and families will benefit mainly low and middle-income working parents. The changes to the PWA and EI programs account for most of the improvement in the situation of low-income families. For instance, a family with two children and an income of $ 10 000 will receive $ 576 in additional benefits under the EI program as well as an extra $ 542 under the PWA program. It will also be covered by the improved property tax refund and an adjustment in family allowances totalling $ 13. In all, the measures announced in the Budget Speech will raise this family's disposable income by $ 1 131. The same family earning $ 22 000 will pay no income tax in 1990 as a result of the higher tax threshold, and will be entitled to PWA benefits, for a gain of $ 501. The other measures will bring the gain to $ 514 in 1990. Finally, at $ 40 000 of income, the benefit to the family will amount to $ 350, of which $ 300 arises from the indexation of the tax system.

Gain of $ 1 458 for a single-parent family earning $ 10 000

Benefits for single-parent families as a result of these measures will be particularly significant. The head of a single-parent family with a young child and earning $ 10 000 in employment income will gain $ 1 458 in disposable income in 1990. The bulk of this improvement is attributable to the changes made to the PWA program. The disposable income of a similar family earning $ 25 000 will rise by $ 370, while at the $ 40 000 level the increase will be $ 346.

GAIN UNDER THE BUDGET
COUPLE WITH TWO CHILDREN, 6-11
ONE WORK INCOME
1990 TAXATION YEAR
(in dollars)

Household work income	Québec transfers and income tax before Budget	Gain under the 1989-1990 Budget						Québec transfers and income tax after Budget
		Change in reduction rate and in family threshold under PWA	Indexing in 1990				Gain under 1989-1990 Budget	
			EI	PWA	Income tax	Other		
0	12 142		540			13	553	12 694
5 000	8 400	1 078	576	– 12		13	1 655	10 055
8 000	6 823	769	576	– 12		13	1 346	8 169
10 000	5 731	554	576	– 12		13	1 131	6 862
15 000	3 322	113		389		13	515	3 837
20 000	1 351	113		389		13	515	1 866
22 000	560	105		389	7	13	514	1 074
25 000	– 210				300	36	335	125
30 000	– 1 572				300	36	335	– 1 236
35 000	– 2 972				300	36	335	– 2 636
40 000	– 4 407				300	51	350	– 4 057
50 000	– 7 022				167	13	180	– 6 841
75 000	– 12 907				44	13	57	– 12 850

Note 1 : A negative entry indicates that the amount of transfers is lower than the amount of income tax, or that it has been reduced.

Note 2 : The amounts under "Other" refer to the gains resulting from the indexing of familiy allowances and from the changes in the property tax refund.

GAIN UNDER 1989-1990 BUDGET
1990 TAXATION YEAR
(in dollars)

Household work income	Couple with two children, 6-11		Couple with one child, 6-11	Couple with three children, 6-11	Single-parent family with one child under 6
	One work income	Two work incomes	One work income	One work income	
0	553	553	474	562	394
5 000	1 655	1 756	1 479	1 664	1 573
8 000	1 346	1 487	1 171	1 355	1 423
10 000	1 131	1 309	956	1 140	1 458
15 000	515	837	423	556	566
20 000	515	515	423	525	566
22 000	514	515	297	516	370
25 000	335	599	297	376	370
30 000	335	382	297	376	374
35 000	335	389	297	380	374
40 000	350	389	297	396	346
50 000	180	366	84	255	94
75 000	57	103	26	90	96

Note 1: The gain under the Budget includes the impact of indexing the taxation and transfer systems and the changes in the PWA program and the property tax refund.
Note 2: For couples with two work incomes, one spouse earns 60 % of the household's income and the other, 40 %.

On the government's financial framework

Cost of $ 267 000 000 to the government in 1991-1992

The changes to personal income tax, the PWA and EI programs and to family assistance will cost the government $ 64 000 000 in 1989-1990, $ 173 000 000 in 1990-1991 and $ 267 000 000 in 1991-1992.

The impact of the changes to the tax system on the government's financial framework will be felt gradually. In 1991-1992, when the full effect of the changes are felt, the cost to the government will reach $ 141 000 000. The indexation of EI program benefits and the changes to the PWA program will then cost $ 66 000 000. The additional support measures will cost $ 45 000 000 in 1991-1992, including $ 34 000 000 for the increase in the allowances for newborn children and $ 11 000 000 for the broadening of the downpayment assistance program for the purchase of a principal residence.

FINANCIAL IMPACT OF MEASURES PERTAINING TO INDIVIDUALS AND FAMILIES
(in millions of dollars)

	Fiscal year		
	1989-1990	1990-1991	1991-1992
Indexing of recognized essential needs at 4.9 % in 1990			
☐ Taxation system	– 11	– 50	– 141
☐ EI and PWA	– 13	– 63	– 66
☐ Family allowances and allowances for young children	– 4	– 15	– 15
Subtotal : indexing	– 28	– 128	– 222
Additional support for families			
☐ Allowances for newborn children			
– for the second child	– 13	– 15	– 15
– for third and subsequent children	– 17	– 19	– 19
☐ Downpayment assistance for a residence	– 6	– 11	– 11
Subtotal : additional support for families	– 36	– 45	– 45
Total impact	**– 64**	**– 173**	**– 267**

Note 1 : A negative entry indicates a cost to the government.
Note 2 : The impact on federal transfers is not included in these amounts.

Details of application

The EI program

The scales of needs and the employment income exclusion provided for in section 11 of the Draft Regulation Respecting Income Security will be raised by 4.9 % effective January 1, 1990. To avoid duplicating compensation for the increase in federal sales taxes, the monthly needs scales will then be reduced by $ 2.50 per adult in the household and by $ 1.25 per dependent child, up to two dependent children. Finally, the resulting amount will be rounded to the nearest dollar.

The PWA program

The family thresholds of the PWA program which will apply in 1990 are shown in the following table. A number of changes will be made to the benefit computation method starting in 1990. The benefit payable will continue to drop according to the family's employment income. However, the household's employment income will first be reduced by the amount of the household's excluded employment income under the EI program, if the adults are deemed available for work. The benefit reduction for the portion of employment income so reduced below the fixed family threshold will henceforth be 67 % of such income. The reduction for the portion of employment income so reduced in excess of this threshold will remain at 42 % of such excess.

FAMILY THRESHOLDS, EXCLUDED WORK INCOMES, AND AMOUNTS ALREADY COVERED UNDER EI PROGRAM FOR PURPOSES OF PWA PROGRAM IN 1990 (in dollars)

	Family threshold	Excluded work income[1]	Amount already covered under EI
Two-parent family			
– one dependent child	10 768	636	10 768
– more than one dependent child	11 689	636	11 689
Single-parent family			
☐ not sharing a dwelling unit			
– one dependent child	8 245	1 008	8 245
– more than one dependent child	9 108	1 008	9 389
☐ sharing a dwelling unit			
– one dependent child	7 169	1 008	7 169
– more than one dependent child	8 032	1 008	8 301

1. The level of excluded work income is that provided for in the EI program, when the household adults are deemed available.

Additional support for families

Payments of the new allowances for newborn children should start in the early summer of 1989, after the administrative systems have been adjusted.

The second payment of $ 500 for a second child will be paid provided the child's first birthday comes after April 30, 1989. The second payment will also be made on the first anniversary of an adoption ruling, if such second child has entitled the parent to a first payment. Moreover, payments will be made in the month following the birthday in accordance with existing rules for family allowance payments.

Concerning the rules governing payment of the quarterly allowances of $ 375 for third and subsequent children, these allowances are currently payable during the first month of each quarter, subject to the child being eligible the previous month. These quarters are counted from the month following the month in which the child is born, and allowances cease in the quarter following the quarter in which the child reaches two years of age.

With the increase in this allowance from $ 3 000 to $ 4 500, payments will cease in the quarter following the quarter in which the child reaches three years of age. As a result of the increase in the allowance for newborn children for a third child and each subsequent child under three years of age, the quarterly allowance of $ 375 will be paid for any child less than three years of age on May 1, 1989 for any quarter beginning after that month, provided at least one quarterly allowance payment is made for such child under three years of age on May 1, 1989.

INCREASE IN TRANSFERS AND INCOME TAX REDUCTION UNDER 1989-1990 BUDGET
COUPLE WITH ONE WORK INCOME
1990 TAXATION YEAR
(in dollars)

Household work income	Couple with one child 6-11			Couple with two children 6-11			Couple with three children 6-11		
	Increase in transfers	Income tax reduction	Total gain	Increase in transfers	Income tax reduction	Total gain	Increase in transfers	Income tax reduction	Total gain
0	474		474	553		553	562		562
5 000	1 479		1 479	1 655		1 655	1 664		1 664
8 000	1 171		1 171	1 346		1 346	1 355		1 355
10 000	956		956	1 131		1 131	1 140		1 140
15 000	423		423	515		515	556		556
20 000	423		423	515		515	525		525
22 000	26	271	297	507	7	514	516		516
25 000	26	271	297	36	300	335	47	328	376
30 000	26	271	297	36	300	335	47	328	376
35 000	26	271	297	36	300	335	51	328	380
40 000	26	271	297	51	300	350	67	328	396
50 000	6	78	84	13	167	180	22	233	255
75 000	6	20	26	13	44	57	22	68	90

Note : Individual entries are rounded off and may not correspond to total.

Results of measures implemented since 1986

In March 1986, the government published a pre-budgetary document entitled "Québec's Public Finances: The Need for Immediate Action". The document identified several problems having an adverse effect on public finances and the economy of Québec. In particular, the personal tax and transfer system suffered from many shortcomings.

First, the personal tax burden in Québec was too high compared to Québec's main trading partners, especially for high-income earners. The transfer system for low-income households was poorly integrated with the tax system and eroded the incentive to work. Moreover, financial support for families with children was inadequate, in particular because, prior to 1986, the tax system made little allowance for child-related costs.

Several measures were taken to achieve a tax system more conducive to employment growth and family welfare.

The tax burden

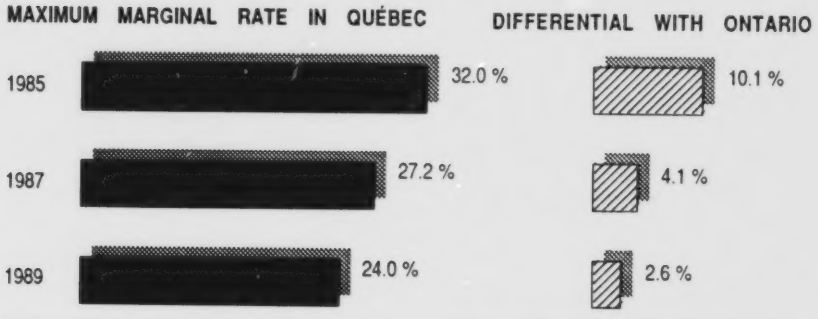
Competitive tax system

Tax rates were lowered beginning in taxation year 1986. The 1988-1989 Budget implemented even larger reductions which reduced the tax burden and substantially improved the competitiveness of the tax system.

— *Maximum marginal rates*

The maximum marginal rate in Québec was cut from 32 % in 1985 to 27.2 % in 1987 and to 24 % in 1989. The comparative gains made with respect to our principal trading partner, the province of Ontario, were just as impressive. The spread between the maximum marginal rates in Québec and Ontario was reduced from 10.1 points in 1985 to 4.1 points in 1987 and to 2.6 points in 1989.* The spread has not been this narrow since 1977. This correction will help attract highly skilled workers to Québec and thereby increase investment and employment.

CHANGE IN MAXIMUM MARGINAL INCOME TAX RATE IN QUÉBEC AND DIFFERENTIAL WITH ONTARIO[1] (as a percentage of taxable income)



1 The value of the federal tax abatement for Québec was taken into account in calculating the Québec-Ontario differential.

— *The relative tax burden*

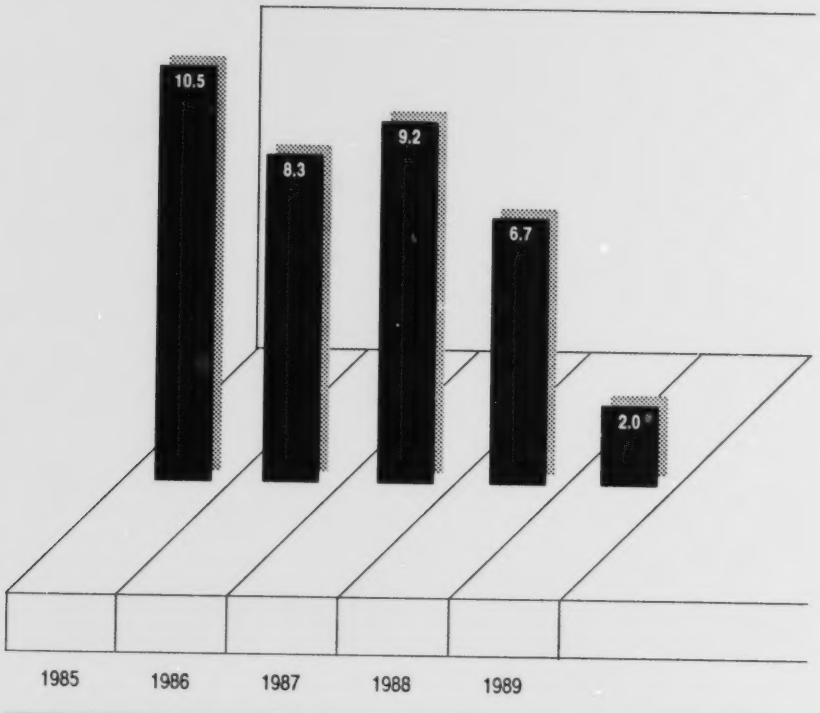
Supplementary tax burden 10.5 % in 1985, 2 % in 1989

The relative tax burden borne by Quebecers can be compared by applying the Ontario and Québec tax structures to Québec's tax bases. This exercise quantifies the difference between the tax burden borne in Québec under Québec's tax system and the burden resulting from the application of Ontario's tax system. The tax burden includes all taxes levied by the provincial government and by local administrations.

According to this method, Québec taxpayers bear a greater tax burden than their Ontario counterparts. However, the successive tax reductions of the past few years have brought the supplementary tax burden down from 10.5 % in 1985 to 2 % in 1989.

* Since the Ontario budget is being tabled later this year, the 1990 tax structure for that province is not known. Therfefore, comparisons do not go beyond 1989.

PERSONAL SUPPLEMENTARY TAX BURDEN[1]
COMPARISON BETWEEN QUÉBEC AND ONTARIO
(as a percentage)



1 Taking all the taxes paid by individuals into account.

The following charts illustrate the difference in personal income tax burdens in 1985 and 1989. Although Québec taxpayers as a whole continue to bear a slight supplementary tax burden, the measures introduced since 1985 have made Québec's tax system more advantageous for families and low-income taxpayers.

Families with incomes under $ 41 550 to pay less income tax

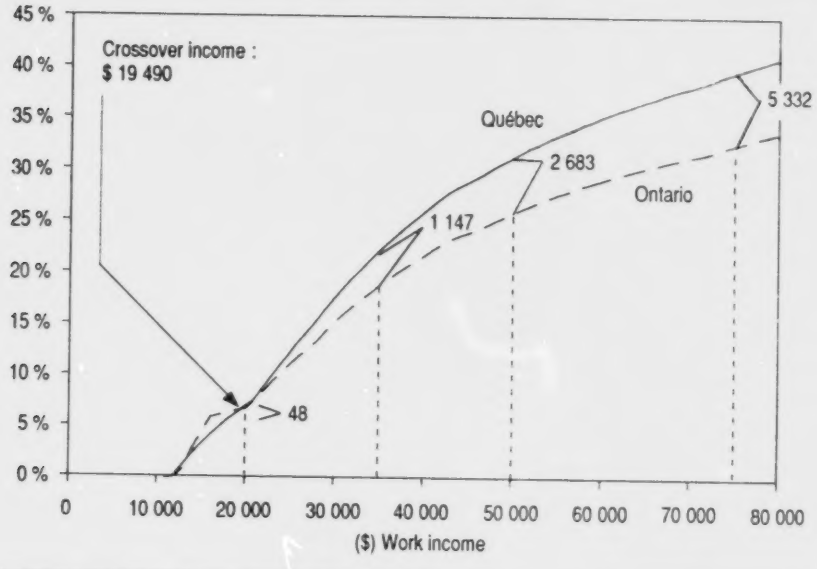
In 1989, a couple in Québec with two children from 6 to 11 pays less income tax than a similar couple in Ontario up to an income of $ 41 550, whereas in 1985, the Québec family began to pay more tax than its counterpart in Ontario at an income of only $ 19 490. The tax burden on the Québec couple is heavier above this threshold, but the difference has been reduced considerably since 1985. At an income of $ 50 000, the additional tax paid by the family in Québec has been slashed from $ 2 683 in 1985 to $ 654 in 1989.

Supplementary burden reduced

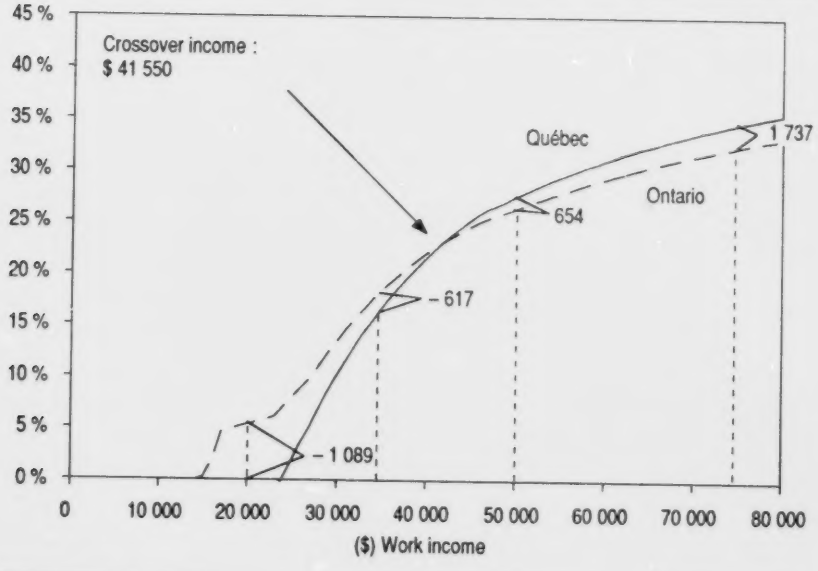
A single person is better off under Ontario's tax system starting at an income of $ 15 440 in 1989, compared to $ 11 850 in 1985. However, the advantage enjoyed by the Ontario taxpayer has also been reduced since 1985. At an income of $ 35 000, the supplementary tax burden has been cut from $ 1 943 in 1985 to $ 1 393 in 1989.

COMPARISON BETWEEN QUÉBEC AND ONTARIO FEDERAL AND PROVINCIAL INCOME TAX BURDEN[1] COUPLE WITH TWO CHILDREN, 6-11 AVERAGE RATE (as a percentage of work income)

1985



1989



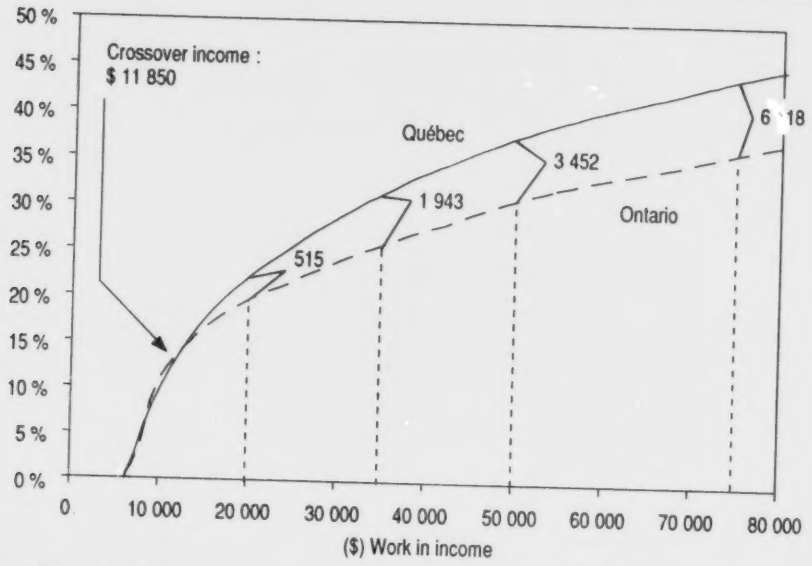
—— Québec

– – — Ontario

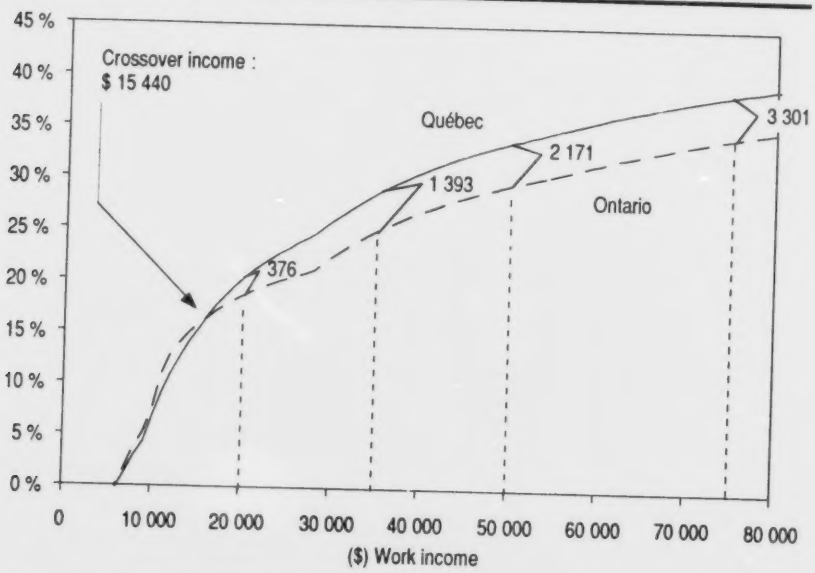
1 Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contribution to the Ontario Health Insurance Plan (OHIP).

COMPARISON BETWEEN QUÉBEC AND ONTARIO
FEDERAL AND PROVINCIAL INCOME TAX BURDEN[1]
SINGLE PERSON
AVERAGE RATE (as a percentage of work income)

1985



1989



—— Québec

– – Ontario

1 Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contribution to the Ontario Health Insurance Plan (OHIP).

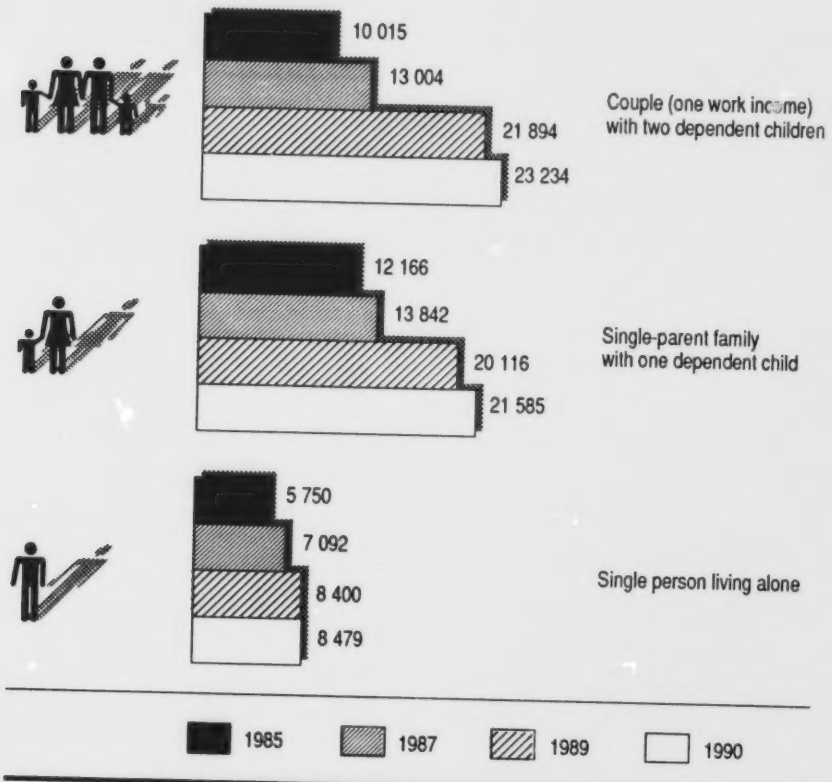
Increase in the work incentive for low-income households

The initial objective in regard to low-income taxpayers was to achieve a better integration of the tax system and transfer programs as they pertain to families. Previously, a household could pay tax even if it received government assistance. The combined effect of the tax rates and transfer reduction rates was that most of the additional earnings of low-income workers were recaptured by governments, which significantly reduced the financial rewards to these households for participating in the labour market. Substantial efforts have been made to eliminate this disincentive.

Considerable increase in tax thresholds

First, tax thresholds have been raised considerably, so that a household does not pay income tax if it receives government transfers. A family with two children which paid income tax starting at $ 10 015 in 1985 will only begin to pay tax at an income of $ 23 234 starting in 1990. The threshold for a single-parent family with a young child will rise from $ 12 166 in 1985 to $ 21 585 in 1990.

CHANGE IN INCOME LEVELS AT WHICH INCOME TAXES BECOME PAYABLE (in dollars)



PWA : monthly benefits for families

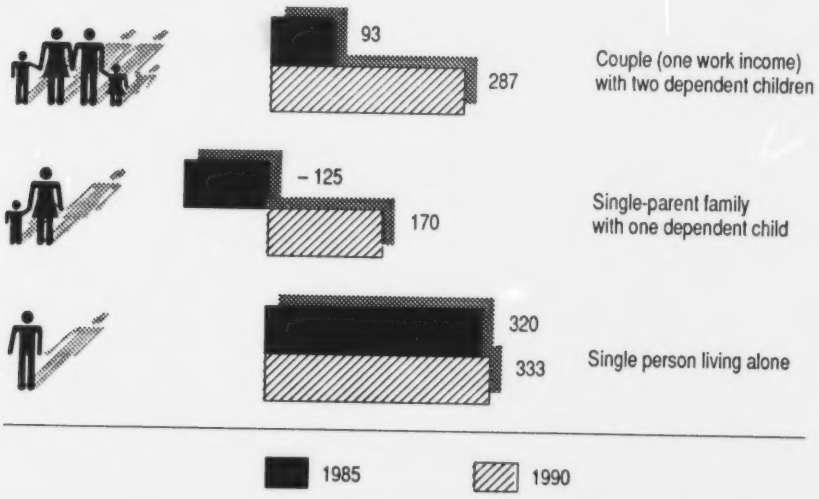
In addition to the higher tax thresholds, the PWA program, which provides low-income working families with monthly benefits, has substantially improved the financial rewards for entering the labour market. For instance, in 1985, the extra disposable income enjoyed by a two-parent family with two children in accepting a job paying $ 12 000 a year, i.e. $ 1 000 a month, amounted to only $ 93 a month. In 1990, this amount will have tripled to $ 287 a month. For taxation year 1990, this family's disposable income will increase by $ 4 384 if one of the spouses accepts a job paying $ 12 000.**

Assistance for child care expenses

Moreover, the assistance provided for low-income workers for child care expenses was inadequate, in particular for those who placed their children with services not recognized by the Office des services de garde à l'enfance. This was a major obstacle to entering the labour market, especially for heads of single-parent families with young children. To correct the situation, the PWA program not only supplements employment income, but contributes to child care expenses, regardless of the form of child care parents choose. In 1990, this assistance will offset from 42 % to 67 % of costs incurred. This means that, in 1990, the monthly income of a single-parent family with a young child will increase by $ 170 if a job paying $ 1 000 per month is accepted, even allowing for child care expenses, whereas in 1985, monthly income would have dropped by $ 125. For taxation year 1990, this family's disposable income will increase by $ 3 236 if the head of the household accepts a job paying $ 12 000.

INCREASE IN MONTHLY INCOME UPON ENTERING LABOUR MARKET (in 1990 dollars)[1]

FOR A MONTHLY WORK INCOME OF $ 1 000



1 All data, including wages, have been adjusted and are expressed in real terms.

** A household's disposable income for the year is obtained by adding the amounts received upon filing its tax return, that is the balance of its PWA benefits and various tax credits, to its monthly income.

Social aid reform

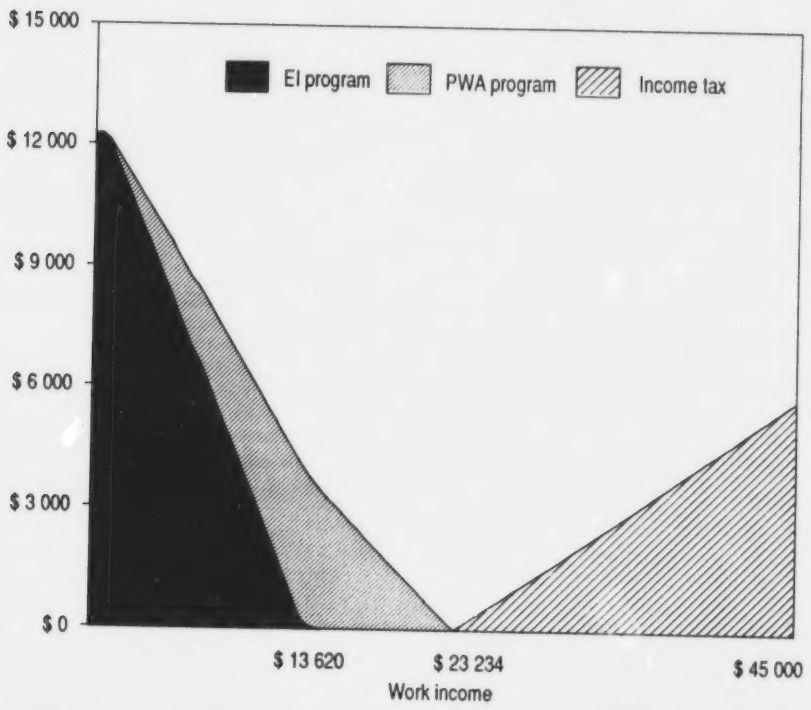
In addition to financial support for low-income workers, the jobless must have genuine means to remedy their situation. A major reform of the social aid program will become effective next August. The new income security policy emphasizes improving the employability of social aid recipients who are fit to work. A series of measures will be made available to them to improve their skills or their work experience. The new EI (employment incentive) program's basic approach is to support the efforts of recipients to recover financial self-sufficiency. Those who are not fit to work will receive substantially higher benefits under the new Financial Support Program.

Integrated system

In this way, Québec has acquired an integrated personal income tax and income security system. The financial support program provides for the needs of individuals who are unemployable. The EI program provides individuals who are employable with the means to recover financial self-sufficiency. The PWA program pays benefits to low-income working parents. Finally, the tax system now taxes only those households with income greater than the exit thresholds of income security programs.

COORDINATION OF TRANSFER PROGRAMS (EI AND PWA) AND TAXATION (INCOME TAX)

COUPLE WITH TWO CHILDREN
1990



Financial support for families

— *Background*

More for large families and low-income families

Since 1985, the changes made to the tax and transfer systems have significantly increased the financial support the Québec government provides for families. In general, greater government financial support has been provided for all families. However, the additional financial support has been more generous for families with several children and those with low incomes.

Support for families :
$ 521 in 1985
$ 2 318 in 1990

For instance, for a family with an income of $ 25 000, the government's support for a child has risen from $ 95 in 1985 to $ 1 293 in 1989, and it will be increased to $ 1 572 in 1990. For a similar family with two children, support has risen from $ 521 in 1985 to $ 1 996 in 1989 and will reach $ 2 318 in 1990. Finally, a family with three children earning the same amount was entitled to $ 880 in support in 1985; this has increased to $ 4 381 in 1989 and will rise to $ 4 762 in 1990.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN COUPLE WITH A $ 25 000 WORK INCOME (in dollars)

	1985	1987	1989	1990
Support from Québec				
☐ one child	95	371	1 293	1 572
☐ two children	521	896	1 996	2 318
☐ three children	880	1 379	4 381	4 762
Support from Ottawa				
☐ one child	690	788	792	832
☐ two children	1 491	1 660	1 916	1 973
☐ three children	2 719	2 943	3 555	3 639
Total support				
☐ one child	785	1 160	2 085	2 403
☐ two children	2 012	2 556	3 911	4 291
☐ three children	3 598	4 322	7 936	8 401

Note 1 : In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Québec's financial support consists of PWA benefits, tax reductions for dependent children, family allowances and all other allowances. Federal support comes from tax reductions for dependent children, family allowances and the refundable tax credit for children.

Note 3 : Where applicable, the 1990 structure takes the anticipated Consumer Price Index into account.

Note 4 : Individual entries are rounded off and may not correspond to totals.

In the case of a family with an income of $ 40 000, the support for a child has been increased from $ 95 in 1985 to $ 700 in 1989 and to $ 982 in 1990. For two children, the family's financial support climbed from $ 521 in 1985 to $ 1 403 in 1989 and to $ 1 729 in 1990. Finally, for a similar family with three children, support came to $ 880 in 1985, rising to $ 3 789 in 1989 and will increase to $ 4 172 in 1990.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN COUPLE WITH A $ 40 000 WORK INCOME (in dollars)

	1985	1987	1989	1990
Support from Québec				
☐ one child	95	425	700	982
☐ two children	521	982	1 403	1 729
☐ three children	880	1 480	3 789	4 172
Support from Ottawa				
☐ one child	342	313	252	257
☐ two children	911	936	1 116	1 172
☐ three children	2 084	2 204	2 681	2 761
Total support				
☐ one child	436	738	953	1 240
☐ two children	1 433	1 918	2 519	2 901
☐ three children	2 963	3 684	6 470	6 934

Note 1 : In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Québec's financial support consists of PWA benefits, tax reductions for dependent children, family allowances and all other allowances. Federal support comes from tax reductions for dependent children, family allowances and the refundable tax credit for children.

Note 3 : Where applicable, the 1990 structure takes the anticipated Consumer Price Index into account.

Note 4 : Individual entries are rounded off and may not correspond to totals.

Progressive assistance : more for the low-wage earners

The structure of the financial support for families in 1990 is progressive. For families receiving social aid, the support provided under the new income security policy will cover all the children's recognized needs. For low-income working families, a special effort has been made to partially offset the loss of transfers as a result of entering the labour market. Support for a family with two children and an income of $ 12 000 will reach $ 5 474 in 1990. As income increases, support declines, falling to $ 2 318 at an income of $ 25 000 and to $ 1 729 at an income of $ 40 000.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN 1990 TAXATION YEAR (in dollars)

Work income	12 000	15 000	20 000	25 000	30 000	40 000	50 000	60 000	75 000
Support from Québec									
☐ one child	4 184	3 000	1 990	1 572	1 380	982	582	563	563
☐ two children	5 474	4 057	3 047	2 318	2 126	1 729	1 331	1 301	1 301
☐ three children	7 694	6 277	5 266	4 762	4 570	4 172	3 797	3 847	3 847
Support from Ottawa									
☐ one child	854	854	854	832	561	257	257	124	125
☐ two children	2 014	2 014	2 014	1 973	1 672	1 172	666	278	280
☐ three children	3 728	3 728	3 728	3 639	3 261	2 761	2 186	979	640
Total support									
☐ one child	5 038	3 854	2 843	2 403	1 941	1 240	840	686	688
☐ two children	7 488	6 071	5 061	4 291	3 798	2 901	1 997	1 580	1 582
☐ three children	11 422	10 005	8 995	8 401	7 831	6 934	5 982	4 826	4 488

Note 1 : In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Québec's financial support consists of PWA and EI program benefits, tax reductions for dependent children, family allowances and all other allowances. Federal support comes from tax reductions for dependent children, family allowances and the refundable tax credit for children.

Note 3 : Where applicable, the 1990 structure takes the anticipated Consumer Price Index into account.

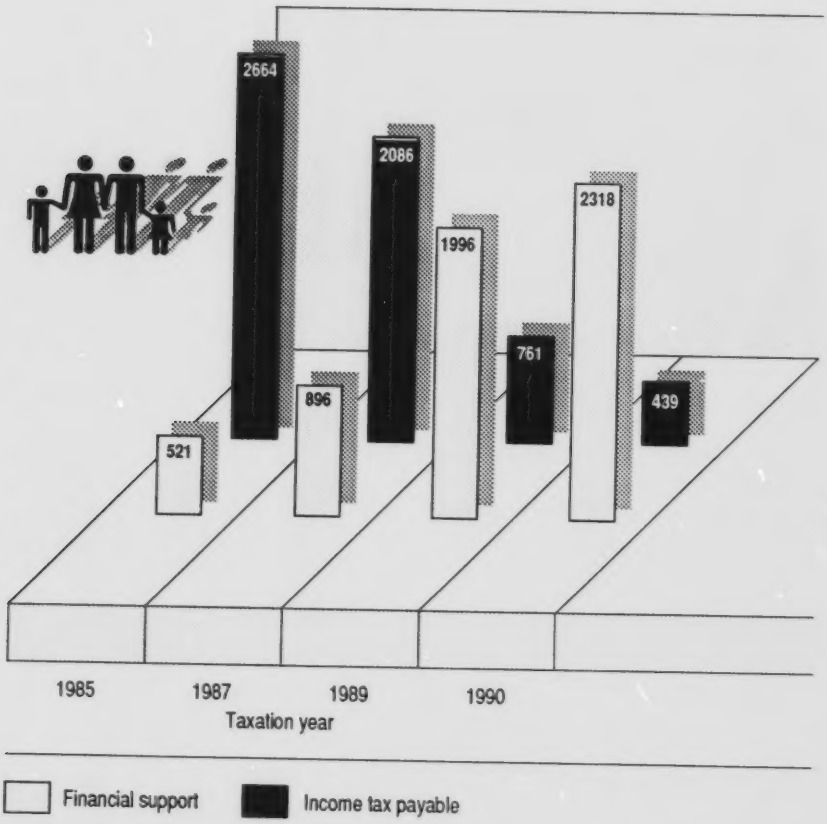
Note 4 : Individual entries are rounded off and may not correspond to totals.

Fairer tax system for families

The improvement in financial support for families also reflects the Québec government's effort to improve the fairness of the tax system for families compared to other types of taxpayers. This objective has been achieved by recognizing essential needs in the tax system. Prior to 1986, the tax system did not sufficiently recognize the needs of the spouse and dependent children 16 to 21, and generally failed to recognize any needs for children under 16. The measures introduced since then have been designed to correct this situation. The tax paid by a family with two children and an income of $ 25 000 amounted to $ 2 664 in 1985 and has declined each year, dropping to $ 2 086 in 1987, $ 761 in 1989 and $ 439 in 1990. This amounts to a reduction in income tax of 84 % from 1985 to 1990. For a similar family with an income of $ 40 000, the drop in income tax has also been substantial. Whereas in 1985, such a family paid $ 6 401 in income tax, in 1989 this has been reduced to $ 4 761 and will decline further to $ 4 417 in 1990, representing a 31 % tax reduction from 1985 to 1990.

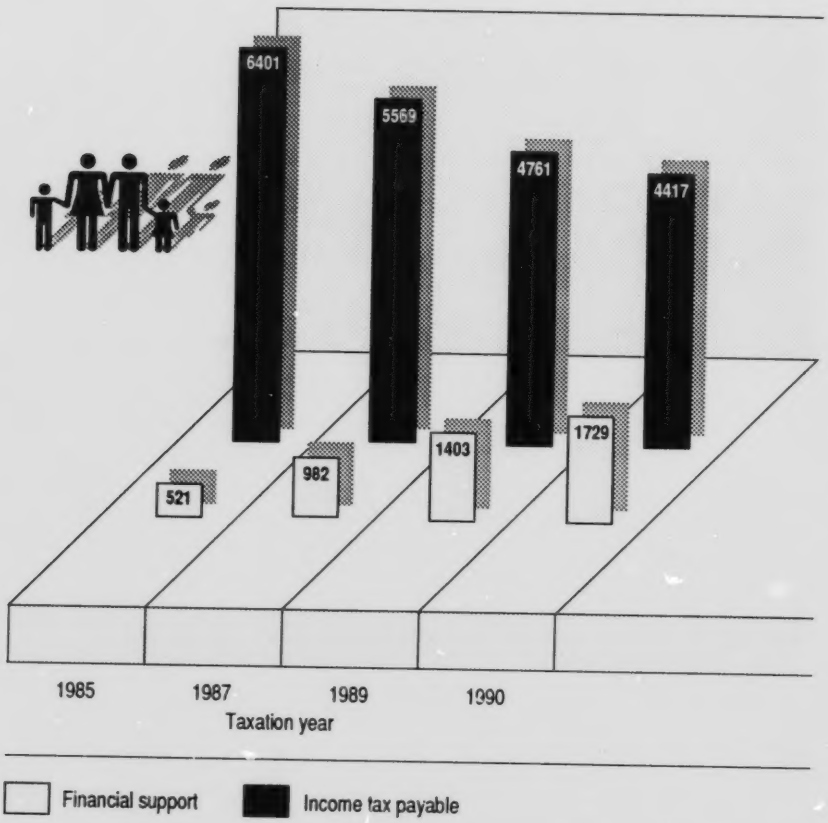
84 % income tax reduction from 1985 to 1990 for a family with an income of $ 25 000

**CHANGE IN INCOME TAX PAYABLE AND FINANCIAL SUPPORT[1]
COUPLE WITH TWO CHILDREN AND A $ 25 000 WORK INCOME
(in dollars)**



1 Support consists of allowances and income tax reductions for dependent children.

CHANGE IN INCOME TAX PAYABLE AND FINANCIAL SUPPORT[1]
COUPLE WITH TWO CHILDREN AND A $ 40 000 WORK INCOME
(in dollars)



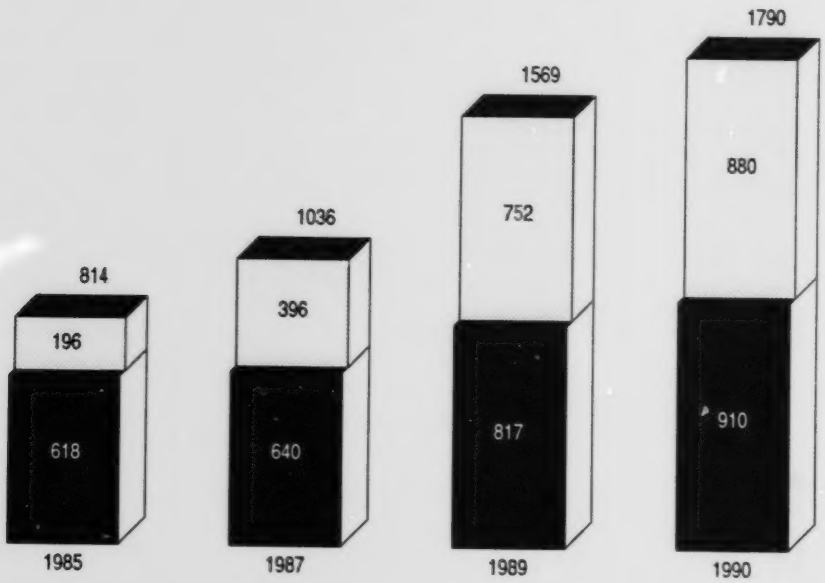
1 Support consists of allowances and income tax reductions for dependent children.

Other significant measures have been introduced to improve support for Québec families. New allowances for young children and for large families have been implemented. Funding for the development of child care services has been increased very substantially. Taken together, these measures constitute a major financial effort by the government on behalf of families.

Government support :
$ 1 000 000 000 more for families

In 1985, the Québec government's financial support for families totaled $ 814 000 000 annually. Of this amount, $ 618 000 000 consisted of transfer payments for children and $ 196 000 000 of tax reductions attributable to children. As a result of the measures introduced since then, this support will rise to $ 1 790 000 000 per year in 1990, of which $ 910 000 000 consists of transfers and $ 880 000 000 of tax reductions. Annual financial support for families will therefore have been increased by almost $ 1 000 000 000 since 1985. These amounts alone are a clear indication of the government's commitment to families.

GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN (in millions of dollars)



1 Transfers include the amounts paid for dependent children in the form of allowances, income security transfers (social aid, parental wage assistance (PWA) and work income supplement (WIS)), maternity allowances, OSGE subsidies for child care expenses, and the downpayment assistance program. Allowances comprise basic family allowances, allowances for young children (or availability allowances) and allowances for newborn children. The amounts are recorded in the year they are paid to families.

2 Tax reductions include the impact on the income tax payable of the measures applicable to dependent children under the taxation system. These measures are income tax exemptions or non-refundable tax credits for dependent children, the exemption or credit for the first child of a single-parent family, the exemption or credit for a child in post-secondary school, the credit for commodity taxes attributable to children, and the income tax reduction granted to families. Account is taken of the taxation of the federal family allowances and, if applicable, of the recovery of Québec and federal family allowances. The impact of the measures is entered in the taxation year they are in force.

3. Priority needs of Québec society

Environment quality

$ 12 700 000 for environment quality

The government must not only continue but also step up its efforts to protect the environment. The following measures will be taken to attain this objective.

Industrial waste reduction

The government believes that, in addition to the efforts already devoted to cleaning up of the urban (water purification program) and rural environments (manure management program), more steps should be taken in the industrial sector.

The industrial waste reduction program is aimed at reducing industrial pollution by 75 % over a 10-year period through the introduction of stricter requirements and controls. The government will add annual appropriations of $ 2 000 000 to supplement the $ 2 000 000 allocated to launch the program in 1988-1989 and already included in the department's 1989-1990 budget package.

Elimination of hazardous waste

To minimize the risk of an environmental catastrophe, it is imperative that the hazardous waste stored in Québec be eliminated. Few solutions to this problem currently exist and, because of a lack of suitable disposal facilities, this waste must be shipped outside Québec for processing. The government will devote $ 8 100 000 in 1989-1990 and $ 2 000 000 in 1990-1991 to transporting and disposing of the PCBs and other hazardous waste stored in Saint-Basile-le-Grand and Shawinigan-Sud.

Environmental protection action plan

To prevent accidents that are harmful to the environment, the government implemented, in the fall of 1988, the first phase of its plan of action for environmental protection. Ninety-eight new positions were created at the ministère de l'Environnement to bolster its capacity to inspect, investigate and monitor hazardous waste, and to enhance the analytical capacity of its laboratories. Sites containing hazardous waste are currently being inspected.

As a follow-up to this first phase, the government will add a recurrent amount of $ 1 000 000 to enhance the inspection and investigation capacity of the department with regard to environmental protection in Québec.

Monitoring river water quality

To evaluate the impact of Québec's water purification program (PAEQ), the government has earmarked recurrent appropriations of $ 440 000 for setting up a network to control the water quality of 16 rivers already covered by the program.

Integrated management of solid waste

Each year, Québec must dispose of 5 600 000 metric tons of solid waste in 72 regional sanitary landfill sites and various dumps.

The number of landfill sites will soon be insufficient. Fourteen sites still have to be opened while six others will have to be renewed in the near future. The situation is likely to worsen over the next five years, with the closing of the two main sites in the Montréal region. Moreover, nearly half of the existing sites are deficient.

In view of this situation, the government will allocate $ 1 000 000 per year to implement an integrated management policy on solid waste. These additional appropriations will be devoted, in particular, to concluding agreements with industry and to providing technical assistance to industry, municipalities and recyclers in order to reduce the volume of waste that needs to be buried. They will also be used to finance recycling and recovery projects pertaining to certain types of solid waste.

The commitments in principle obtained by the Minister of the Environment from 400 firms to set up a joint fund for the selective collection and reduction of the waste are the cornerstone of this policy. The private and public sectors will be partners in this clean-up effort.

Dam upgrading program

In the framework of water conservation and development, the government is responsible for some 200 dams and other hydraulic works, which regulate the flow of several rivers in addition to satisfying a wide range of other needs.

To keep these structures in good repair, the government will devote $ 37 000 000 to upgrading them over the next 10 years, including $ 24 000 000 by the end of fiscal 1991-1992. The Société immobilière du Québec will be in charge of carrying out and financing the work, while the ministère de l'Environnement will shoulder the debt service costs related to the program. These costs will total $ 200 000, $ 700 000 and $ 1 900 000 in fiscal 1989-1990, 1990-1991, and 1991-1992 respectively. The department will receive additional appropriations to cover these costs.

Health and social services

Specialized medical services

$ 15 000 000 for health and social services

In some areas of medical activity, technological development, discoveries of new treatments and advances in medical practice are exerting pressure on the costs of the health system.

To satisfy the need for care and services in neonatology, cardiology and hemodynamics, the government will grant additional appropriations of $ 8 000 000 per year to the ministère de la Santé et des Services sociaux, beginning in 1989-1990.

Youth protection services

A large number of young people in Québec's social services centres are waiting for youth protection services. To improve these services, the government will grant additional annual appropriations of $ 2 000 000, beginning in 1989-1990, to the ministère de la Santé et des Services sociaux.

Community organizations

Some community organizations provide assistance to people facing difficulties of all kinds. To increase support for these organizations, the government will provide the ministère de la Santé et des Services sociaux with additional annual funding of $ 2 000 000 starting in 1989-1990. The youth housing centres network, which provides temporary housing facilities for homeless young people, will receive $ 1 200 000 out of these additional appropriations.

Deduction for specialized health care received outside an outlying region

Currently, in a given year, an individual may receive a non-refundable tax credit for eligible medical expenses in excess of the lesser of 3 % of his income or $ 1 500. Eligible medical expenses include reasonable travel expenses incurred by the individual to obtain medical care in a facility at least 80 kilometres from his place of residence if, among other conditions, comparable care is not available where he lives. Reasonable travel expenses of a companion for the individual are also eligible, if the individual is recognized to be unable to travel unassisted. In general, however, these expenses do not cover the cost of accommodation during an extended stay which may be required for specialized medical care.

Residents of outlying regions may, at times, need to travel to large urban centres and remain there for a time to obtain specialized health care not available in their region. They are therefore faced with expenses that individuals living in urban centres are spared.

To make greater allowance for the additional expenses residents of outlying regions incur to obtain specialized medical services in large urban centres, a new non-refundable tax credit is being introduced.

This credit will be equal to 20 % of reasonable costs for transportation, travel and lodging during an extended stay incurred during the year to obtain medical care in Québec in a facility at least 250 km from the place of residence of the person receiving the medical care. These expenses must be incurred on behalf of the individual, his spouse or any dependant for whom the individual is entitled to a personal tax credit for the year in which the expense is incurred and, if the person is under 18 or unable to travel unassisted, on behalf of a companion. Unlike the basic tax credit for medical expenses, the expenses eligible for this new tax credit will not be reduced by the individual's income.

Consequently, the expenses included in the year or in any taxation year in the calculation of an individual's basic tax credit for medical expenses and those refundable to him will not be eligible for this new tax credit.

The new credit will be granted if, among other conditions, a physician certifies that the medical care required by the individual, his spouse or his dependant is not available from a facility within 250 kilometres of his place of residence.

This measure will become effective in taxation year 1989.

Material assistance for handicapped persons

Over the past few years, the government has committed substantial financial resources to the financial assistance program for handicapped persons. Since there is still a substantial need, the government wishes to increase its assistance further. Consequently, an additional $ 9 300 000, including $ 3 000 000 in 1989-1990, will be allocated over the next three years to the Office des personnes handicapées du Québec to increase material assistance for handicapped people.

Deduction for handicapped workers

A person suffering from a mental or physical handicap may have to bear additional costs in order to hold a job. These additional costs reduce the financial rewards of entering and remaining in the labour market.

In the interests of fairness and to take the special situation of these workers into account, a measure will be introduced to enable such a worker to deduct, in computing income, the amount he pays a person to provide the care required to enable him to work. This deduction will be limited to the lesser of two thirds of the handicapped person's earned income or $ 5 000 per year. The details of this measure are identical to those introduced in the 1989-1990 federal Budget.

This measure will apply starting in taxation year 1989.

An additional $ 10 600 000 for cultural development in Québec

Québec culture

Budget of the ministère des Affaires culturelles

To give substance to its commitments, the government wishes to increase the financial resources allocated to cultural development in Québec. The appropriations of the ministère des Affaires culturelles will therefore be increased by $ 9 600 000 in 1989-1990, which represents an average annual increase of 11.7 % since 1986-1987.

Of this amount, $ 5 000 000 will be granted annually to assist young artists. In addition, a non-recurring amount of $ 1 600 000 will be allotted in 1989-1990 for developing the Centre de production cinématographique de Montréal. Finally, $ 3 000 000 will be set aside each year for various heritage-related projects and for projects that support and disseminate culture in Québec. In 1989-1990, the additional funds for these last projects will be drawn from the Contingency Fund.

The government provides substantial assistance for cultural development. Taking into account the measures introduced in today's Budget, expenditure by the ministère des Affaires culturelles accounts for nearly 0.9 % of total government expenditure in 1989-1990. In addition, considerable funds are allocated to agencies responsible for administering the Charter of the French Language while major tax benefits are granted to the film and television industry.

Immigration

$ 1 000 000 for immigration

To promote immigration into Québec, the government will increase the appropriations of the ministère des Affaires internationales by $ 1 000 000 in 1989-1990 and by $ 2 000 000 thereafter to spur immigrant recruiting and selection activity abroad.

4. Revenue measure

Increase in the business surtax

The business surtax was introduced on May 1, 1986 to offset the reduction in the federal government's participation in the financing of health services and post-secondary education. The surtax rate will be raised by 4.75 percentage points, bringing it to 12 %, given the impact of the recent federal Budget on Québec's financial framework. This will increase the effective rate of the employer contribution to the health services fund from 3.22 % to 3.36 %, the rate of the general tax on capital from 0.48 % to 0.50 % and the tax rate on income for an active corporation not eligible for the small business deduction from 5.90 % to 6.16 %.

ROUNDED-OFF EFFECTIVE RATES OF EMPLOYER CONTRIBUTION TO THE HEALTH SERVICES FUND, OF THE TAX ON CAPITAL AND OF INCOME TAX

	Before Budget Speech %	After Budget Speech %
Employer contribution to the health services fund	3.22	3.36
Tax on capital		
☐ General rates	0.48	0.50
☐ Banks and loan and trust companies	0.97	1.01
Corporate income tax		
☐ Income of an active business		
— Eligibility for the SBD [1]	3.22	3.36
— Other income	5.90	6.16
Income of an inactive business	13.94	14.56

1 Small business deduction.

The new rate for the surtax will apply to employer contributions to the health services fund for wages paid or deemed paid after the day of the Budget Speech.

The new rate for the tax on capital and corporate income tax will apply to taxation years ending after the day of the Budget Speech. If a taxation year straddles the day of the Budget Speech, the new rate will apply proportionally to the number of days in the taxation year that follow the day of the Budget Speech. Furthermore, instalments for the tax on capital and income tax will have to be adjusted accordingly starting with the payment for May 1989.

Finally, the appropriate adjustments will be made for the purposes of the refundable tax credit for losses and to the minimum tax on capital payable by some corporations, to reflect the new surtax rate.

This measure will generate additional revenue for the government of $ 138 000 000 and increase expenditure by $ 19 000 000 in 1989-1990, for a net positive impact of $ 119 000 000 on the financial framework. The tax burden on private sector enterprise will rise by $ 119 000 000 for the 1990 taxation year, while the net impact on government revenue will be $ 147 000 000 over the same period.

FINANCIAL IMPACT OF THE ADDITIONAL SURTAX FOR THE FULL 1990 TAXATION YEAR (in millions of dollars)

	Direct impact of the surtax			Indirect impact on income tax	Impact on tax burden
	Employer contribution to the HSF	Tax on capital	Income tax		
Private sector					
Corporations and cooperatives	66	37	35	(21)	117
Businesses not incorporated	4			(2)	2
Subtotal	**70**	**37**	**35**	**(23)**	**119**
Public sector					
Government of Canada	4				4
Gouvernement du Québec	23				23
Municipalities and municipal agencies	4				4
Crown corporations	4	N / A	N / A		4
Québec government corporations	2	11			13
Subtotal	**37**	**11**			**48**
Total	**107**	**48**	**35**	**(23)**	**167**

N / A : Not available.

Impact on the business tax burden

The measures announced today concerning investment in new technologies, the sales tax on rolling stock, and various other measures, combined with the increase in the surtax from 7.25 % to 12 %, will make the business tax burden heavier : it will rise by $ 49 000 000 in 1989 and by $ 83 000 000 in 1990.

IMPACT OF THE MEASURES ON THE TAX BURDEN OF BUSINESSES (in millions of dollars)

	1989	1990
Measures for investment in new technologies	– 8	– 13
Sales tax exemption on rolling stock	– 12	– 21
Increase of surtax from 7.25 % to 12 %	69	117 [1]
Total impact on tax burden	49	83

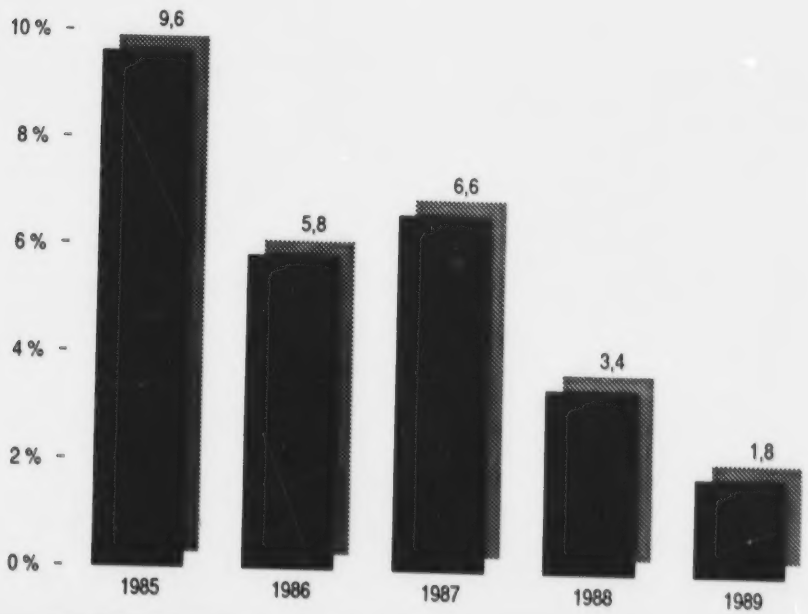
Note : A negative entry indicates a decrease in the tax burden for businesses.

1 This amount excludes the impact of the surtax on self-employed workers.

Maintaining a competitive corporate tax system

In spite of this increase in the surtax, Québec's business tax system will remain competitive with that of Ontario. As a result of the various measures introduced since 1986 concerning investment and research and development, the additional tax burden in Québec for private sector businesses as a whole shrunk from 9.6 % in 1985 to only 1.8 % in 1989.

ADDITIONAL TAX BURDEN OF BUSINESSES COMPARISON BETWEEN QUÉBEC AND ONTARIO — 1985 TO 1989



5. Miscellaneous fiscal measures

Income tax

Tax exemptions for international organizations

To encourage international organizations to establish themselves in Québec, measures have been adopted under the Québec taxation system with respect to recognized international non-governmental organizations (INGOs). Various tax benefits apply, under certain circumstances, to the agency, its employees and members of their families when such employees are obliged to reside in Canada to perform their duties within the organization, provided they were living outside Canada immediately prior to assuming their duties.

Until now, two international non-governmental organizations have been recognized, i.e. the International Air Transport Association (IATA) and the SITA (Airlines' Worldwide Telecommunications and Information Services).

The International Civil Aviation Organization (ICAO), which already enjoys a number of tax advantages reserved for international government agencies, recently indicated its desire to submit to the same system as international non-governmental agencies. Consequently, the same tax privileges granted to INGOs will be granted to ICAO, its foreign employees and members of their families.

This measure as it applies to personal income tax exemptions will come into force starting in the taxation year during which the agreement is signed between the government and ICAO and, with regard to commodity taxes, starting on the day following the coming into force of the aforementioned agreement.

Moreover, these international agencies also enjoy an exemption from municipal and school taxes other than those collected as compensation for services rendered. To make up for the shortfall sustained by municipalities and schoolboards because of this exemption, the government will refund the amount to them.

The latter measure will involve a transfer from the government to local administrations of $ 6 200 000 in 1989-1990. This amount includes $ 4 800 000 covering the period 1985 to 1988 and $ 1 400 000 for the 1989 municipal taxation year. The government will grant $ 1 600 000 in 1990-1991, and $ 1 700 000 in 1991-1992.

Relaxation of rules exempting new corporations

At present, any new corporation may, under certain circumstances, enjoy a tax exemption during its first three taxation years. This exemption covers the revenue of such a corporation which would otherwise be taxable at the base rate of 3 percent, and the portion of the tax on capital of the corporation attributable to its first $ 2 000 000 in paid-up capital.

To benefit from such a tax exemption, the corporation must satisfy a number of conditions, among which is the obligation to submit to the Minister of Revenue the prescribed form indicating its election to do so, within six months of the end of its first taxation year. Failure to submit the form within the prescribed deadline may deprive the corporation of the exemption.

To enable greater numbers of otherwise eligible new corporations to take advantage of the three-year tax holiday, a provision will be introduced, stipulating that a corporation which makes an election by submitting the prescribed form within six months of the end of its third taxation year and pays a late filing penalty may nonetheless benefit from the tax exemption. The penalty will be $ 50 per month of delay, up to a maximum of $ 600.

Measures designed to limit rules respecting the deferment of the losses of corporations benefiting from this exemption and those respecting credits for losses will be amended accordingly.

This measure will apply to corporations which take advantage of this option after the day of the Budget Speech.

Use of funds accumulated in a RHOSP

Under Québec's tax system, a taxpayer wishing to withdraw the funds accumulated in his Registered Home Ownership Savings Plan tax-free must use the funds to purchase an owner-occupied dwelling. The interest accumulated on the funds in an RHOSP is not taxed, allowing the balance in the fund to grow more rapidly.

To support the furniture industry, and its employees, by encouraging the purchase of the goods it produces, the rules governing the application of funds accumulated in a registered home ownership savings plan will be amended. Holders of these plans will be able to use all or part of the funds therein, free of tax, to purchase new household furnishings after the day of the Budget Speech and before January 1, 1990. Household furnishings purchased before January 1, 1990 but not delivered by that date will be considered eligible provided they are delivered no later than February 28, 1990.

To simplify the administration of this measure for taxpayers, eligible household furnishings consist of household furnishings currently exempted from the retail sales tax. In particular, this includes furniture normally found in a residential dwelling, as well as refrigerators and stoves for such dwellings.

Relaxation of the late filing penalty

Currently, an individual who fails to file his tax return by the date prescribed in tax legislation is assessed a penalty equal to 5 % of the unpaid tax at the time his return is due. The unpaid tax at that time does not reflect certain amounts the taxpayer may be entitled to receive, such as excess contributions to the Québec Pension Plan, the property tax refund and the property tax refund for forest producers, which are paid to the taxpayer upon filing his return. The final balance computed in the tax return corresponds more closely to the net amount owing to the government at that time.

To relax the rules for taxpayers, tax legislation will be amended so that the calculation of the penalty is based on this final balance.

This measure will apply to tax returns required to be filed after the day of the Budget Speech.

Filing of savings bonds statements

At present, when a bond holder cashes in his bonds or interest coupons, he receives an information slip in only two copies. One copy is for his files and the other for his federal tax return. No specific statement is provided for his Québec income tax return. The taxpayer must therefore provide the ministère du Revenu du Québec with a copy of the federal statement. Since some taxpayers neglect to provide this copy, it is difficult for the ministère du Revenu to effectively monitor this interest income and collect taxes thereon.

To counter tax evasion and increase the fairness of the tax system as it applies to interest income, an amendment will be introduced to require the financial institutions concerned to issue information slips when savings bonds, coupon bonds or interest coupons are cashed in.

Simplification of corporate tax rates

Technical amendments will be made to the legislation concerning corporate tax rates to simplify their application and ensure that they better reflect the rates generally applicable to most businesses.

Simplification of the tax reduction for families and of the PTR

Currently, to compute the tax reduction for families and the property tax refund (PTR), the amounts representing the essential needs used to compute the personal tax credits for the spouse and dependent children are taken into account. These amounts are deducted from the total income of the spouses.

In some circumstances, when a taxpayer receives a tax credit for a single-parent family, either the amount representing essential needs used to compute the single-parent family tax credit must be reduced because of the presence of a spouse, or this amount must be increased to avoid including the income of the child covered by this tax credit.

To simplify the taxpayer's calculations of the tax reduction for families and of the property tax refund, amendments will be introduced so that the adjustments for the amount of the tax credit for single-parent families representing essential needs will no longer be taken into account.

This amendment will become effective in taxation year 1989.

Interest arising from the certification of a debt

At present, the Minister of Revenue can, at any time after 30 days have elapsed following the date on which a tax debt is due, issue a certificate to the effect that the debt is due and payable. On presentation of this certificate to the clerk of the competent court, the clerk or prothonotary hands down a decision in favour of the Deputy Minister of Revenue for the amount shown on the certificate, which includes any interest and penalties.

To facilitate the collection of debts owing under tax legislation, an amendment will be introduced so that the amount stated in a judgment of this kind includes interest at the rate applicable on any tax debt up to the date of payment.

This amendment will apply to judgments handed down after the day of the Budget Speech.

Elimination of the safety deposit box record required at the time of death

Currently, the testamentary executor or any person administering an estate must, within six months of the death of a person, prepare a record of the opening of any safety deposit box rented by the deceased person, listing its contents.

This requirement needlessly complicates the settlement of estates and other measures are in place to ensure that the taxes of the deceased person are paid. To make the settlement of estates easier, this requirement is abolished.

This measure will apply after the day of the Budget Speech.

Interest on tax overpayment as a result of a loss carry-forward

At present, a tax overpayment is generally deemed to have been paid on the 31st day after the day the taxpayer files a written request with the Minister of Revenue or an amended tax return in which he applies the deduction of a loss incurred in a subsequent taxation year. Interest on the amount of the tax overpayment resulting from such a loss carry-over is calculated for the period elapsed between the 31st day after the day the taxpayer requests a loss carry-over and the date of the refund.

To ensure that the treatment of loss carry-forwards is identical, this rule should be extended to apply to a taxpayer who, after the expiry of the prescribed period for filing his tax return, carries forward into a year the deduction of a loss incurred in a previous taxation year. In such circumstances, interest on the amount of the tax overpayment will be calculated for the period elapsed between the 31st day after the day the taxpayer requests a loss carry-forward and the date of the refund.

This measure will apply to requests for a loss carry-forward produced after the day of the Budget Speech.

Tax on capital

Deduction of deferrable income tax reserves

At present, corporations other than banks, lending institutions, trusts and companies dealing in securities, may take into consideration a number of deductions when calculating their paid-up capital for the purpose of the tax on capital.

A new deduction will be introduced to allow the reduction of paid-up capital by the amount recorded under the item deferrable income tax reserves provided the account is in debit in the company's financial statements.

This modification will apply to taxation years ending after the day of the Budget Speech.

Restrictions on the deductibility of certain short-term securities

At present, for the purpose of calculating the tax on capital, the paid-up capital of a corporation other than a bank, a lending institution, a trust and companies dealing in securities, is reduced by a proportion reflecting in relation to its assets the value of its investments in the shares and bonds of other corporations, and the amount of loans and advances to other corporations.

To prevent a corporation from converting at the year end its liquid assets into short-term investments for the sole purpose of reducing the amount of tax on capital it has to pay, or to prevent corporations from effecting transactions among themselves solely for the purpose of attaining the same objective, new rules are being introduced.

The amount of loans or advances to other corporations will be deemed to not include commercial paper issued by a given corporation, unless it was issued for a period of 120 days or more, or issued for an indeterminate period, and was held by the given corporation for at least 120 days prior to the end of its taxation year.

More specifically, loans granted to a corporation empowered to receive cash deposits are still deemed not to constitute loans and advances to other corporations, regardless of the period.

When a corporation's paid-up capital is calculated, no deduction or reduction will be allowed with respect to a loan or an advance granted to another corporation if it has been established that this loan or advance was made as part of a series of loans and repayments with a view to unduly reducing the corporation's paid-up capital.

These modifications will apply to taxation years ending after the day of the Budget Speech.

Commodity tax

Refund of the sales tax on returned merchandise

At present, consumers must pay the 9 percent sales tax when they purchase goods. However, a vendor may agree to take back merchandise sold to a consumer. When consumers return goods to a vendor, the ministère du Revenu usually allows the sales tax to be refunded to the consumer.

To standardize this practice, the Retail Sales Tax Act will be amended to allow for the repayment of the sales tax when consumers receive a refund for returned merchandise.

This change will apply as of the day following the day of the Budget Speech. However, no refund of the sales tax will be granted in the case of returned merchandise purchased before midnight on the day of the Budget Speech and which has subsequently been exempted from the tax.

Amendment to the sales tax rules for international truckers

Currently, a trucker purchasing vehicles to be used exclusively for international cartage and parts for such a vehicle can pay sales tax in proportion to the number of kilometres covered in Québec compared to total mileage.

A similar rule applies to interprovincial truckers. However, in this case, the vehicle is not required to be used exclusively for interprovincial cartage.

To harmonize the sales tax rules applicable to international truckers with those applicable to interprovincial truckers, the condition that the vehicle be used exclusively for international cartage will be eliminated for taxation years ending after the Budget Speech.

Relaxation of the taxation of improved telecommunications services

The 9 % tax on telecommunications applies to the cost of any telecommunication sent or received by a user and on the cost of telecommunication service rentals.

No exemption applies to basic telecommunications service used directly by a firm to provide an improved telecommunications service.

To take into account constant changes in this realm, basic telecommunications services used directly by a company to provide a taxable improved telecommunications service will be exempted from this tax.

This measure applies to basic services used after the day of the Budget Speech.

Adjustments to billing for meals and beverages

Current regulations stipulate that when an agent of the ministère du Revenu uses his own meal and beverage bills, these bills must be printed in advance and indicate the ministère du Revenu authorization number.

The development of computerized billing systems has led the ministère du Revenu to accept documents printed by such systems as bills for meals and beverages. Since these documents are not printed in advance and cannot be previously authorized by the ministère du Revenu, the Regulation of the Meals and Hotels Tax Act will be amended to allow the accreditation of such bills under certain conditions. In particular, restaurant owners or other agents using this kind of billing system will now have to provide the ministère du Revenu with any information it may require concerning the identification of the computer hardware, software, codes and programming used. In addition, to counter tax evasion, an agent using his own bill form will have to use a different colour for each copy of the bills produced.

Amendment to the taxation of pre-rolled tobacco

At present, the specific tax on tobacco other than cigarettes or cigars is generally equal to two cents a gram. However, for tobacco retailing for less than 2.92 ¢ a gram, the tax payable is equal to 60 % of the retail price.

Given the developments in the marketing of tobacco products and the appearance of new products, and to prevent erosion of the cigarette tax base in favour of these new products, the 60 % tax rate will be extended to a new category of tobacco. This new category, defined as tobacco other than cigarettes, cigars or loose tobacco, will be taxed at 60 % of its retail price.

This measure will protect the amount of tax receipts generated by the tax on tobacco, and will apply to this new category of tobacco delivered to a retailer after midnight on the day of the Budget Speech.

Additional staff for the ministère du Revenu

To increase the fairness of the tax system, special efforts are required to counter fraud and tax evasion. Over the past few years, the ministère du Revenu has implemented special tax recovery programs to ensure that taxpayers fulfil their obligations to the state. These special programs have resulted in appreciably greater revenues from fuel taxes, interprovincial tobacco sales, amusement machines and personal income taxes.

The efforts of the ministère du Revenu to counter tax evasion will not only be continued but also extended to new sectors such as international tobacco sales, corporate income taxes and the tax on capital. The ministère du Revenu will be provided with additional appropriations of $ 3 000 000 to add 87 permanent positions to its authorized staffing level. The bulk of these positions will be concentrated in the special tax recovery programs.

6. Harmonization with federal tax legislation and regulations

Reform of tax assistance for retirement saving

Deferral of the application of certain rules

The federal Minister of Finance issued a release on April 27, 1989 (89-043)* announcing that the new system of contribution ceilings, which is an integral part of the system of tax assistance for retirement saving, would be deferred to 1991.

As previously announced (88-8)**, the Québec government cannot agree with several of the federal government's proposals which could entail the de-registration of pension plans whose tax cost is less than the maximum indicated by the federal government and whose benefits comply with the legislation covering supplemental pension plans. The Québec government is continuing to discuss the matter with the federal government in an effort to reach a more satisfactory settlement.

Nonetheless, in general, the principle of harmonization with federal measures, following the one-year deferral announced on April 27, 1989, is maintained.

Employment deduction

Currently, an individual's deduction for a contribution to a Registered Retirement Savings Plan of which he or his spouse is the annuitant is computed on the basis of income earned for the year. This earned income consists, in particular, of the taxpayer's wages or salary, from which certain amounts are deducted.

In general, Québec's tax system is harmonized with the federal system with respect to the items included in computing earned income. However, the computation may be different because of some items specific to Québec. Such is the case for the $ 750 deduction for income from an office or employment, which is maintained in Québec's tax system.

To further simplify this calculation, an amendment will be introduced so that earned income will no longer be reduced by the deduction for income from an office or employment.

This measure will apply beginning in taxation year 1989.

Accelerated remittance of at-source withholdings

The federal Minister of Finance announced in his 1989-1990 Budget Speech that the requirement to remit at-source withholdings four times a month as of January 1, 1990 would apply only to employers whose monthly remittances average at least $ 50 000. Consequently, employers whose average monthly remittances are equal to or greater than $ 15 000 but less than $ 50 000 will continue to remit twice monthly.

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* Number of the federal Department of Finance release.

** Number of the information bulletin of the ministère des Finances du Québec.

At present, employers who make bimonthly remittances to Revenue Canada must also remit at-source withholdings for Québec income tax, employer and employee contributions to the Québec Pension Plan and employer contributions to the health services fund twice a month. Payroll amounts during the first 15 days of the month must be remitted no later than the 25th of the month, while amounts during the rest of the month must be remitted no later than the 10th of the following month. It had also been provided, for employers required to make bimonthly remittances of Québec at-source withholdings, that the frequency of such remittances would be increased to four times a month starting in 1990, as with federal remittances.

Bimonthly remittances to the ministère du Revenu du Québec currently apply only to businesses having to make such remittances to Revenue Canada. This mechanism often proves to be cumbersome and unfair and may lead to situations in which an employer with very small remittances payable to Québec is nonetheless required to remit bimonthly, while another employer with very high average monthly remittances to Québec is not.

To remedy the problem caused by the existing mechanism for deciding which employers must make accelerated remittances of Québec at-source with holdings, an amendment will be introduced so that the federal tax base will no longer be used as a reference.

Provisions similar to the federal tax measures will be incorporated into Québec's tax system so that the thresholds set will be based on average monthly remittances of Québec at-source deductions.

These amendments will apply as of January 1, 1990, making Québec's tax legislation free-standing in this regard.

Refunds of social transfer payments

The federal Minister of Finance announced, in his 1989-1990 Budget Speech, that beginning in taxation year 1989, taxpayers would be required to pay back old age security benefits and family allowances through a special 15 % tax on net income in excess of $ 50 000 (BR 1)***. The amounts thus recovered will be deductible in computing income.

There is no equivalent to these pay-backs in Québec's tax system. However, in the interests of continuing harmonization between the Québec and federal tax systems, rules will be drawn up enabling Québec's tax system to take into account the special tax levied on individuals for federal income tax purposes. These rules should make allowance for the problems that could arise in the processing of Québec income tax returns, since the amount deducted depends on the amount of the special tax paid to the federal government.

Amounts payable by corporations

In his 1989-1990 Budget, the federal Minister of Finance announced that corporate tax instalments due after 1989 would be deemed to be received on the date they are received by a Revenue Canada office or a Canadian financial institution, rather than on the date they are sent by first class mail in Canada or the equivalent (BR 12). Thus interest for late payment will be payable on corporate tax instalments due after 1989 and received at an office of Revenue Canada after their due date. Federal tax legislation already includes a similar provision for tardy remittance of at-source payroll withholdings by employers.

*** The references in parentheses represent the number of the Budgetary Resolution corresponding to the federal Notice of Ways and Means Motions of April 29, 1989.

Québec's tax legislation already provides that any payment stipulated under tax legislation or regulations is deemed to have been received on the date it is stamped by the ministère du Revenu. Currently, this provision is generally applied only to at-source payroll withholdings by employers. In view of the measure announced by the federal government, this provision will from now on be applied to any payment due by a business after 1989 under tax legislation or regulations.

Draft bill and regulation on the leasing of property

A draft bill on the leasing of property was presented for consultation when the Notice of Ways and Means Motion was tabled in the House of Commons (BR 10). The proposed amendments are intended to remedy certain problems entailed by a moratorium declared in June 1988 on sale and lease-back transactions. A harmonization measure had already been announced with respect to this moratorium (88-2)**.

The consultations that will be held on this Notice of Ways and Means Motion will be followed closely and an appropriate decision will be announced once the federal Minister of Finance has made his position known.

Employment in outlying regions

In calculating his income from an office or employment, an individual working in an outlying region does not have to take into account the value of the room and board supplied by his employer, as long as he complies with certain conditions. To harmonize the Québec tax system with that of the federal government, a technical correction will be made in the legislative provisions concerning the non inclusion of this advantage. This amendment will apply to the 1989 and subsequent taxation years.

Other measures announced in the 1989-1990 federal Budget Speech

On April 27, 1989, the federal Minister of Finance tabled a Notice of Ways and Means Motion in the House of Commons to amend the Income Tax Act. Québec's tax legislation and regulations will be amended to make them more consistent with the federal tax system. However, harmonization measures will only be adopted after the passage of federal legislation based on the Notice of Ways and Means Motion and will be applicable on the same dates as for federal tax purposes. These harmonization measures are listed below.

Some of the provisions announced by the federal government have not, however, been covered by these harmonization measures, since our tax system does not contain corresponding provisions. This is the case of the measures concerning the individual surtax (BR 2), the tax rate on income not attributed to provinces (BR 5), the introduction of a special large corporations tax (BR 7), the modifications to Part VI tax (BR 8), the corporate surtax (BR 9) and the refundable sales tax credit (BR 22).

In addition, some of the measures announced by the federal Minister of Finance in releases issued by his department have been integrated into the Notice of Ways and Means Motion to amend the Income Tax Act. Harmonization measures have already been announced with regard to these measures. This is the case, for example, of the measure broadening the definition of costs covered by the medical expense credit (BR 17) (89-1)**, the measure on the recapture of the capital cost allowance and terminal losses for certain passenger vehicles (BR 19) (89-1)**, and the measure on consulting services provided or paid for employees, which are not considered taxable benefits (BR 20) (88-8)**.

Harmonization measures

Québec tax legislation and regulations will be amended to include the following federal measures, adapted in terms of their overall principles :

1. the amendments made in order that the interest or other income accrued on certain investments be taken into account annually in calculating income (BR 3) ;

2. the broadening of the definition of legal expenses that may be deducted when calculating annual income (BR 4) ;

3. the introduction of a maximum deduction of $ 5 000 for the cost of care by an attendant for an individual who claims the disability credit (BR 6) (see section entitled "Deduction for the Working-Disabled" for further details) ;

4. the reduction in the deductible amount for the special tax levied on dividends paid on preferred shares (BR 11) ;

5. extension of the statutory period for issuing notices of reassessment to certain corporations (BR 13).

Draft legislation concerning securities lending and dividend rental arrangements

The federal Minister of Finance made public in a release dated April 27, 1989 (89-042) draft legislation and explanatory notes concerning securities lending and dividend rental arrangements. This draft legislation proposes that dividends received after April 30, 1989 not be granted the same tax treatment as inter-corporate dividends, within the framework of an agreement aimed, among other things, at allowing an individual to receive a dividend on a share without incurring a loss or enjoying a gain.

It also recommends that securities lending not be considered a disposition and that the amounts received from or by a person dealing in securities in compensation for taxable dividends paid on the shares of a Canadian public corporation be considered taxable dividends. However, a person who makes such a payment will not be entitled to deduct it in calculating his income.

The decision on this draft legislation will be announced after the federal Minister of Finance has made his position known.

7. Summary of the financial impact of the fiscal and budgetary measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1989-1990 BUDGET SPEECH
(in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1989	1990	1989-1990	1990-1991	1991-1992
FISCAL MEASURES					
1. A forward-looking economic policy					
Investment in new technologies :					
— Depreciation accelerated by 100 % for intangible assets	– 1	– 2	– 2	– 2	– 2
— R & D venture capital company	– 15	– 15	—	– 23	– 15
— Other measures respecting new technologies	– 7	– 11	– 7	– 10	– 11
— Sales tax exemption on rolling stock	– 12	– 21	– 18	– 22	– 25
— Subtotal	– 35	– 49	– 27	– 57	– 53
Investment in financial capital and support for entrepreneurship and venture capital	– 20	– 42	—	– 20	– 42
Support for regional vitality	—	– 1	—	– 1	– 2
Subtotal	– 55	– 92	– 27	– 78	– 97
2. Taxation of individuals and families					
Indexing of tax system and of family allowances	—	– 154	– 15	– 65	– 156
Increase in allowances for newborn children	– 21	– 34	– 30	– 34	– 34
Subtotal	– 21	– 188	– 45	– 99	– 190
3. Measure respecting revenue					
Increase in business surtax	70	119	138	174	186
4. Various fiscal measures					
Amounts accumulated in a Registered Home Ownership Savings Plan	– 2	– 1	—	– 2	– 1
Deduction for specialized health care for people from outlying regions	– 1	– 1	—	– 1	– 1
Subtotal	– 3	– 2	—	– 3	– 2
5. Harmonization with federal tax laws and regulations	– 11	29	—	– 11	29
Total impact of fiscal measures on revenue	**– 20**	**– 134**	**66**	**– 17**	**– 74**

A negative entry indicates a drop in the tax burden or higher disposable income, and a cost to the government. Individual entries are rounded off and may not correspond to totals.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES (cont.)
1989-1990 BUDGET SPEECH
(in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1989	1990	1989-1990	1990-1991	1991-1992
BUDGETARY MEASURES					
1. A forward-looking economic policy					
Investment in human capital :					
— Higher education and university research	—	—	– 38	– 46	– 46
— Job creation for students	—	—	– 1	—	—
— Subtotal	—	—	– 39	– 46	– 46
Investment in new technologies :					
— Transfer and dissemination of technology in businesses	—	—	– 10	– 14	– 15
Support for regional vitality :					
— Investment in the road network	—	—	– 30	—	—
— Assistance for water and sewer infrastructures	—	—	– 1	– 22	– 8
— Investment in recreational equipment	—	—	– 4	– 2	– 2
— Support for the forest sector	—	—	– 19	– 4	– 4
— Job creation in the Gaspé and Îles-de-la-Madeleine	—	—	– 6	—	—
— Subtotal	—	—	– 60	– 28	– 14
Subtotal	—	—	– 109	– 88	– 75
2. Taxation of individuals and families					
Indexing of EI program scales	—	– 54	– 11	– 57	– 58
Harmonization and indexing of PWA program	—	– 8	– 2	– 6	– 8
Downpayment assistance program for a residence	– 4	– 10	– 6	– 11	– 11
Subtotal	– 4	– 72	– 19	– 74	– 77
3. Priority needs of Quebecers					
Quality of the environment	—	—	– 13	– 7	– 6
Health and social services	—	—	– 15	– 16	– 17
Culture	—	—	– 10	– 8	– 8
Immigration	—	—	– 1	– 2	– 2
Subtotal	—	—	– 39	– 33	– 33
4. Measure respecting revenue					
Impact of the business surtax on government expenditure	—	—	– 19	– 24	– 26
5. Miscellaneous budgetary measures					
Tax exemption for international agencies	—	—	– 6	– 2	– 2
Additional staff for the ministère du Revenu	—	—	– 3	– 3	– 3
Subtotal	—	—	– 9	– 5	– 5
Total impact of budgetary measures on expenditure	**– 4**	**– 72**	**– 193**	**– 223**	**– 214**
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	**– 24**	**– 206**	**– 127**	**– 240**	**– 288**

A negative entry indicates a drop in the tax burden or higher disposable income, and a cost to the government. Individual entries are rounded off and may not correspond to totals.

APPENDIX B

Medium-Term Outlook for the Québec Government's Financial Position

Introduction 3

Medium-term financial framework 3

Budgetary revenue 3

- ☐ Own-source revenue 3
- ☐ Federal transfers 4

Budgetary expenditure 5

Budgetary deficit 6

Non-budgetary transactions 7

Net financial requirements 7

Financial indicators 7

- ☐ Budgetary deficit and net financial requirements 8
- ☐ Debt 8
- ☐ Debt service 9
- ☐ Current account balance 10

Conclusion 11

Introduction

Appendix B is a three-year forecast of the government's revenue, expenditure, deficit and net financial requirements, which makes it possible to assess the progress made in the management of public finances and to identify the government's objectives for the coming years.

Changes in the financial framework over the forecast period are based on realization of the economic assumptions selected in preparing the Budget Speech (see Appendix D). Should the economic situation diverge significantly from these forecasts, fiscal and budgetary objectives may have to be revised.

Medium-term financial framework

$ 1 500 000 000 deficit expected in 1989-1990

Forecasts pertaining to the medium-term financial framework indicate that the deficit should continue to shrink over the coming years. As predicted in the 1988-1989 Budget Speech, the deficit is expected to be $ 1 500 000 000 in 1989-1990, down $ 100 000 000 from the previous year. Given the impact of the federal government's recent budget on the Canadian economy and on the Québec government's financial framework, it has been decided to slow down reduction of the deficit over the next two years, bringing it to $ 1 475 000 000 in 1990-1991 and $ 1 450 000 000 in 1991-1992.

Net financial requirements $ 150 000 000 in 1991-1992

Net financial requirements for fiscal 1988-1989 of $ 963 000 000 will drop significantly over the coming three years and are expected to settle at $ 750 000 000 in 1989-1990, $ 450 000 000 in 1990-1991 and $ 150 000 000 in 1991-1992.

Budgetary revenue

Revenue growth below that of GDP

The rate of growth in overall budgetary revenue is expected to be 5.9 % annually from 1989-1990 to 1991-1992 (compound annual rate of growth). This growth rate falls short of the rise in gross domestic product (GDP), owing mainly to the substantial tax cuts announced in the 1988-1989 Budget Speech and the virtual stagnation of federal transfers.

Own-source revenue

Own-source revenue growth of 7.2 % annually

In 1988-1989, the impact of tax reforms on personal income reduced the growth rate of own-source revenue considerably. Over the three-year period in question, its annual growth rate of 7.2 % is comparable to the change in GDP. However, the distribution over time of the impact of tax reforms on personal income gives rise to appreciable annual fluctuations.

In 1989-1990, government revenue from personal income tax will tend to drop as the impact over a full year of the tax rate changes announced in the 1988-1989 Budget Speech is reflected in deductions at source. Shifting refunds from one fiscal year to another could result in growth rate gaps, as was the case when $ 300 000 000 in refunds for the 1988 taxation year was recorded early in fiscal 1989-1990. Continued efforts to accelerate the processing of personal income tax returns by the ministère du Revenu in early 1990 will have a similar effect.

CHANGE IN BUDGETARY REVENUE
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992
Own-source revenue before changes in family allowances	16 004.6	17 964.5	19 697.6	22 188.0	23 527.0			
Family allowances charged against government revenue	– 199.9	– 201.9	– 210.2	– 219.0	– 170.0 [1]			
Own-source revenue	15 804.7	17 762.6	19 487.4	21 969.0	23 357.0	24 456.0	26 881.0	28 808.0
% change	—	12.4	9.7	12.7	6.3	4.7	9.9	7.2
Federal transfers	6 260.7	6 221.0	5 872.1	6 175.9	6 445.0	6 562.0	6 708.0	6 630.0
% change	—	– 0.6	– 5.6	5.2	4.4	1.8	2.2	– 1.2
Budgetary revenue	22 065.4	23 983.6	25 359.5	28 144.9	29 802.0	31 018.0	33 589.0	35 438.0
% change	—	8.7	5.7	11.0	5.9	4.1	8.3	5.5
GDP growth rate in % [2]	9.4	7.5	9.8	10.6	9.4	7.6	6.3	7.6

1 Family allowances paid from April 1 to December 31, 1988.

2 For the calendar year ending three months before the end of the fiscal year under consideration.

Federal transfers

On a cash basis, federal transfer income is affected by adjustments to previous years subsequent to the review of data used to pay advances. This may cause considerable annual variations, making it more difficult to analyse the change in payments. Looking at federal transfers on an accrual basis, and thus including all payments pertaining to a given year regardless of the fiscal period in which they were received, makes it possible to eliminate these variations and gives a more accurate picture of the actual change in federal government transfers.

CHANGE IN REVENUE FROM FEDERAL TRANSFERS
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992
Transfer revenue	6 260.7	6 221.0	5 872.1	6 175.9	6 445.0	6 562.0	6 708.0	6 630.0
% change	—	– 0.6	– 5.6	5.2	4.4	1.8	2.2	– 1.2
Adjustment to attribute amounts received to the appropriate year	– 135.7	– 29.0	336.3	238.6	26.0	– 107.0	– 112.4	– 9.1
Transfers on an accrual basis	6 125.0	6 192.0	6 208.4	6 414.5	6 471.0	6 455.0	6 595.6	6 620.9
% change	—	1.1	0.3	3.3	0.9	– 0.2	2.2	0.4

Federal transfers increase by less than 1 % a year

On an accrual basis, the virtual standstill in federal transfers posted since 1984-1985 will continue over the forecast period. The anticipated annual increase in transfers is estimated at 0.8 % for 1989-1990 to 1991-1992, compared to 1.4 % from 1985-1986 to 1988-1989.

Two programs mainly account for the levelling off of federal transfer payments.

De-indexation of the federal contribution to established programs financing (health and post-secondary education) will cause a gradual decrease in the federal contribution for this area, which is expected to continue over the forecast period. The federal government's numerous cutbacks in health and post-secondary education financing since 1982-1983, notably the de-indexation under Bill C-96 and that announced in the 1989-1990 federal budget, will have created a cumulative shortfall for Québec of more than $ 6 000 000 000 in 1991-1992.

Contributions to welfare programs, on the basis of the sharing of 50 % of eligible expenditures, are levelling off as a result of improvement in the employment situation and Québec's efforts to rationalize income security programs.

These factors have contributed to reducing the importance of federal transfers in Québec's budgetary revenue. After peaking at 28.9 % in 1983-1984, the share these transfers represent has continued to drop, and is expected to slump to 18.7 % in 1991-1992.

Budgetary expenditure

Tight control of spending

Given an excessive tax burden and anemic growth in federal transfers, spending had to be streamlined to improve the state of public finances. Its annual growth rate stabilized at 4.7 % between 1986-1987 and 1988-1989. Despite this, it was possible to find significant sums each year to finance priorities and meet public needs.

CHANGE IN BUDGETARY EXPENDITURE
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992
Budgetary expenditure before changes in family allowances	– 26 061.0	– 27 529.4	–28 388.9	–30 738.1	– 31 572.0			
Less : Family allowances charged against government revenue	199.9	201.9	210.2	219.0	170.0 [1]			
Budgetary expenditure	– 25 861.1	– 27 327.5	– 28 178.7	– 30 519.1	– 31 402.0	– 32 518.0	– 35 064.0	– 36 888.0
% change	—	5.7	3.1	8.3	2.9	3.6	7.8	5.2
Expenditure prerecorded								
☐ 1987-1988	—	—	—	848.8	– 625.0	– 136.0	8.0	9.0
☐ 1988-1989	—	—	—	—	638.0	– 602.0	4.0	4.0
Expenditure on a comparable basis	– 25 861.1	– 27 327.5	– 28 178.7	– 29 670.3	– 31 389.0	– 33 256.0	– 35 052.0	– 36 875.0
% change	—	5.7	3.1	5.3	5.8	5.9	5.4	5.2
GDP growth rate in % [2]	9.4	7.5	9.8	10.6	9.4	7.6	6.3	7.6
Canadian inflation rate in % [2]	4.4	4.0	4.1	4.4	4.1	4.9	4.6	4.3

1 Family allowances paid from April 1 to December 31, 1988.

2 For the calendar year ending three months before the end of the fiscal year under consideration.

Efforts directed at optimum management of available resources are also reflected in the changing expenditure/GDP ratio. Whereas government spending represented 25.7 % of Québec's GDP in 1983-1984, it accounted for only 21.8 % last year, a level almost on a par with that of 1975-1976. This trend should continue over the forecast period and the ratio should fall short of 21 % in 1991-1992. This development means that the government is using an increasingly modest portion of the province's production for its activities.

BUDGETARY EXPENDITURE
(as a percentage of GDP)

The rate of change in spending, on a comparable basis, should settle at 5.9 % in 1989-1990, 5.4 % in 1990-1991 and 5.2 % in 1991-1992. The lower growth rates for 1990-1991 and 1991-1992 are mainly due to lower anticipated inflation rates and on-going streamlining efforts.

Budgetary deficit

Deficit continues to drop

Through rigorous spending controls, the budgetary deficit will continue to drop in 1989-1990, to $ 1 500 000 000, and then fall by $ 25 000 000 in each of the next two years. This result will be made possible through strict control of spending, despite the very slow growth in federal transfers.

SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992
Budgetary transactions								
Own-source revenue [1]	15 804.7	17 762.6	19 487.4	21 969.0	23 357.0	24 456.0	26 881.0	28 808.0
Federal transfers	6 260.7	6 221.0	5 872.1	6 175.9	6 445.0	6 562.0	6 708.0	6 630.0
Budgetary revenue	22 065.4	23 983.6	25 359.5	28 144.9	29 802.0	31 018.0	33 589.0	35 438.0
Budgetary expenditure [1]	– 25 861.1	– 27 327.5	– 28 178.7	– 30 519.1	– 31 402.0	– 32 518.0	– 35 064.0	– 36 888.0
Budgetary deficit	**– 3 795.7**	**– 3 343.9**	**– 2 819.2**	**– 2 374.2**	**– 1 600.0**	**– 1 500.0**	**– 1 475.0**	**– 1 450.0**
Non-budgetary transactions								
Investments, loans and advances	– 167.4	40.4	– 379.7	– 680.3	– 672.0	– 740.0	– 859.0	– 966.0
Retirement plans account	1 183.5	1 269.0	1 354.8	2 203.0	1 634.0	1 370.0	2 016.0	2 232.0
Provision for financing the water purification program	—	4.3	9.8	12.2	15.0	– 2.0	2.0	16.0
Other accounts	766.4	290.2	83.7	– 539.8	– 340.0	122.0	– 134.0	18.0
Balance	1 782.5	1 603.9	1 068.6	995.1	637.0	750.0	1 025.0	1 300.0
Net financial requirements	**– 2 013.2**	**– 1 740.0**	**– 1 750.6**	**– 1 379.1**	**– 963.0**	**– 750.0**	**– 450.0**	**– 150.0**

1 Family allowances were substracted from revenue and expenditure up to December 31, 1988. They have been entered as deductions from revenue since January 1, 1989.

Non-budgetary transactions

Large surplus in non-budgetary transactions

In coming years, non-budgetary transactions will constitute an important source of government financing. Although investments, loans and advances will result in increased financial requirements, the overall non-budgetary transactions balance should rise from $ 750 000 000 in 1989-1990 to $ 1 300 000 000 in 1991-1992.

Net financial requirements

Decrease of $ 300 000 000 a year in net financial requirements

The decrease in the deficit, coupled with the upturn in the non-budgetary transactions balance, will allow a continued reduction in net financial requirements. These will be substantially cut by 1991-1992 to $ 150 000 000 from $ 750 000 000 and $ 450 000 000 in 1989-1990 and in 1990-1991 respectively. This is a substantial reduction since the net financial requirements averaged more than $ 2 000 000 000 during the first half of the 1980s.

Financial indicators

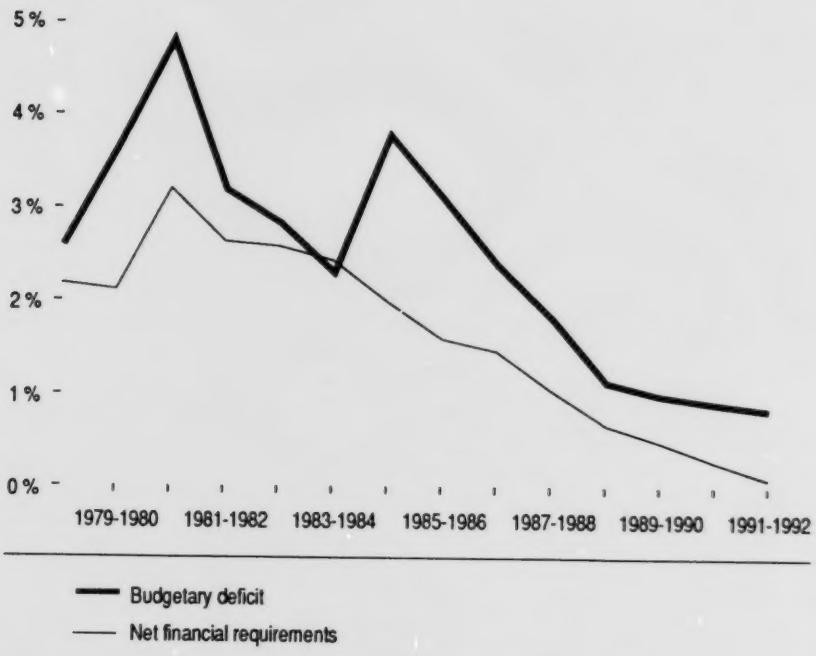
Study of the principal financial indicators for the Québec government and the public sector also makes it possible to assess the progress made in the management of public finances in recent years.

Budgetary deficit and net financial requirements

Deficit as a percentage of GDP at lowest level since 1970-1971

The change in the deficit and in net financial requirements as a percentage of GDP is most revealing. The deficit/GDP ratio should be only 1 % in 1989-1990, 0.9 % in 1990-1991 and 0.8 % in 1991-1992, the lowest levels since 1970-1971. Net financial requirements will account for 0.5 % of GDP in 1989-1990. They will continue to decline until they represent only 0.1 % of GDP in the last forecast year.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS (as a percentage of GDP)



Debt

Debt represents smaller share of GDP

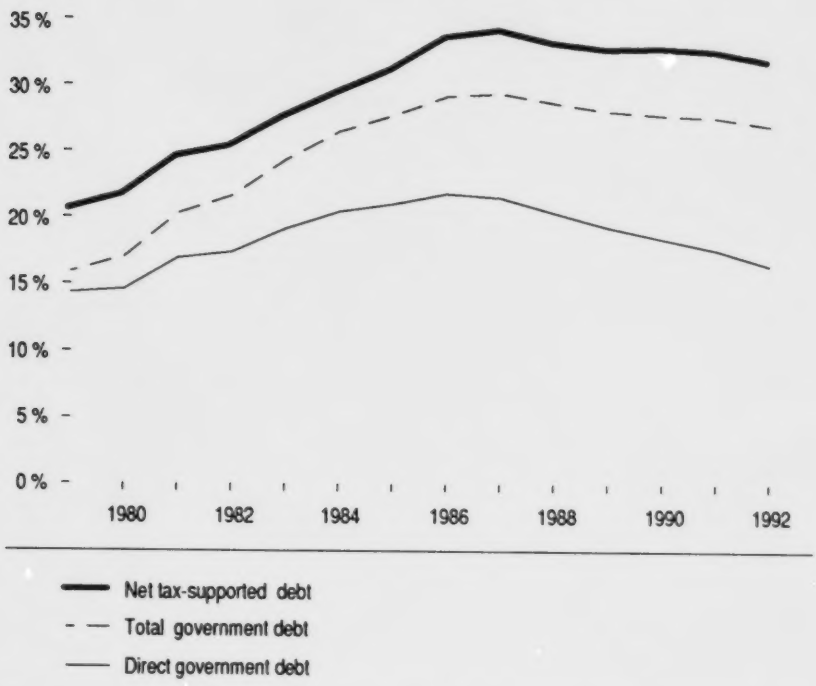
The gradual reduction in the deficit should also allow the government to continue diminishing the importance of its debt.

To begin with, the government's direct debt, composed of the long-term debt and Treasury bills, should drop from 19.3 % of GDP in 1989 to 16.4 % in 1992, continuing the downward trend begun in 1987.

The total government debt/GDP ratio should also continue to decline. Total debt includes direct debt and commitments recorded under public and parapublic sector employees' retirement plans. This ratio, which peaked at 29.3 % in 1987, should settle at 26.9 % in 1992.

The public sector's net tax-supported debt as a percentage of GDP, or the total debt of the government, that of the education and health and social services networks and of the municipal sector, minus the net value of government investments in its enterprises, began to decrease in 1988. From its 1987 value of 34.1 %, the 1992 ratio of net debt to GDP is estimated at 31.8 %.

GOVERNMENT AND PUBLIC SECTOR DEBT AS AT MARCH 31 [1]
(as a percentage of GDP)



1 Excluding the impact of prerecording expenditures in 1987-1988 and 1988-1989.

Debt service

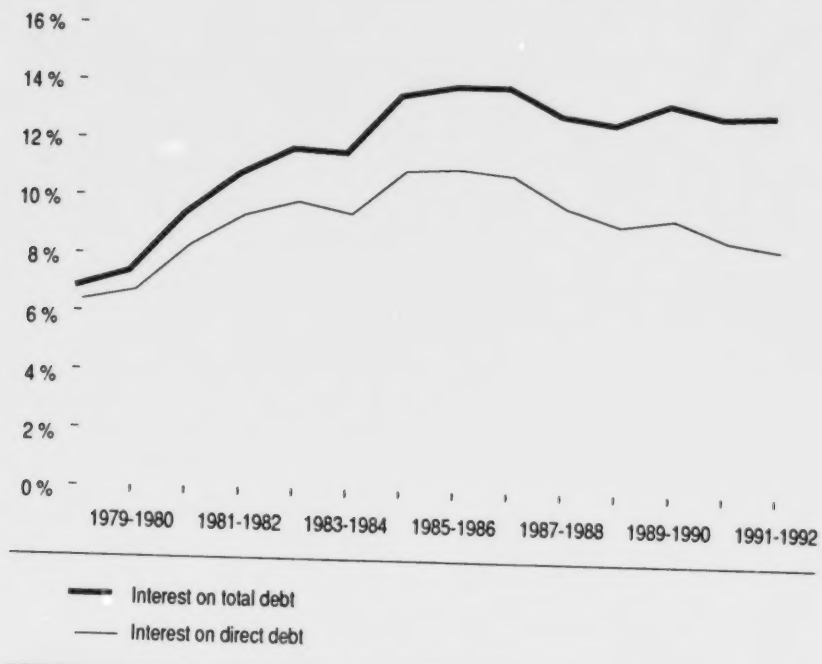
Share of revenue devoted to direct debt service : 8.5 % in 1991-1992

Reduction of the relative importance of the government's debt will have a positive effect on debt service.

The share of budgetary revenue to be allocated to interest payments on the direct debt will continue to drop. From 1985-1986 to 1988-1989, it will have fallen from 11.1 % to 9.2 %, and should reach 8.5 % in 1991-1992.

The ratio of interest on the government's total debt to budgetary revenue will stabilize around 13 % for the forecast period.

DEBT SERVICE[1]
(as a percentage of budgetary revenue)



1 Excluding the impact of prerecording expenditures in 1987-1988 and 1988-1989.

Current account balance

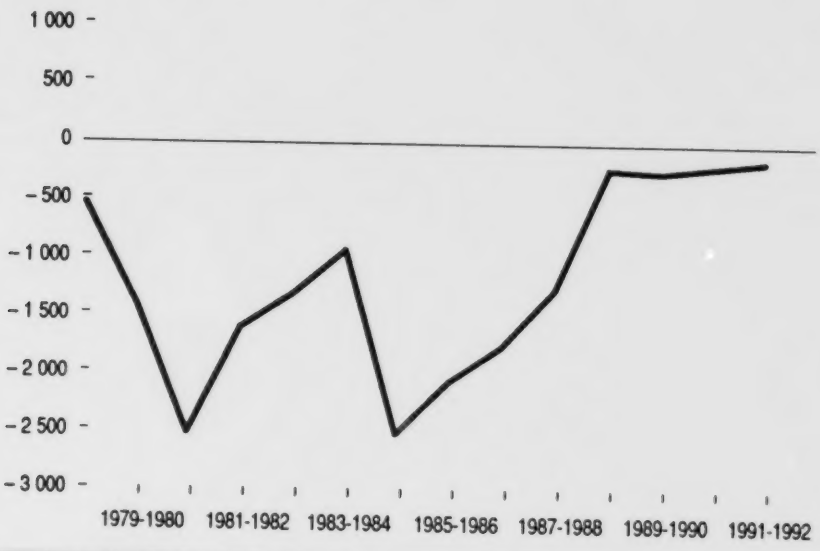
Substantial improvement in current account balance in recent years

The current account balance shows how annual current expenditures are financed from budgetary revenue rather than through borrowings.

This balance is calculated by subtracting capital spending from budgetary expenditure and comparing this result with budgetary revenue. When the current account is balanced, the government borrows only to finance capital spending. This means that the cost of current services is not transferred to future generations.

The reduction in the current account deficit has been sizable in recent years. In 1984-1985, this deficit totalled $ 2 525 400 000 ; in 1989-1990, it will fall to $ 256 000 000 and should continue to drop over the forecast period.

CURRENT ACCOUNT BALANCE
(in millions of dollars)



Conclusion

Québec's position as regards its public finances has improved considerably in recent years. Tightly controlled spending has resulted not only in a substantial drop in the deficit and in net financial requirements but also in a significant decrease in the tax burden. Moreover, the weight of the debt on the economy is on the decline and revenue allocated to debt service has stabilized. Forecasts for 1989-1990 to 1991-1992 indicate continued progress.

APPENDIX C

The Government's Financial Position and Borrowings in the Public Sector

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The government's financial transactions [1]

The preliminary results of the government's financial transactions for the year ending March 31, 1989 show a $ 1 600 000 000 deficit in budgetary transactions, which is the amount forecast in the Budget Speech of May 12, 1988. The deficit in budgetary transactions is thus $ 774 200 000 less than in 1987-1988.

For the sixth year in a row, Québec's economy continued to grow in 1988, with the domestic product rising by 4.9 % rather than 3.5 % as forecast in the Budget Speech. This improved performance produced higher budgetary revenue than anticipated. These results, combined with a slower than anticipated rate of refund of personal income tax, and the tight discipline the government continued to impose on the management of its expenditures, gave rise to a budgetary surplus of $ 638 000 000.

The government nevertheless chose to be prudent in using this surplus given the uncertainty about economic prospects and the implications of the fiscal and budgetary measures in the last federal budget.

A large portion of the budgetary surplus is due to less considerable income tax refunds than anticipated, since taxpayers turned in their income tax returns much less rapidly than expected. The budgetary surplus obtained from this source in 1988-1989 will be reflected in additional refunds of the same order in 1989-1990.

The government has therefore decided to allocate this budgetary surplus to the recording, in 1988-1989, of additional expenditure that it would normally have shouldered only next year.

Net financial requirements amounted to $ 963 000 000, that is, $ 17 000 000 less than initially forecast. This discrepancy may be traced to an improvement in the surplus in non-budgetary transactions, which amounts to $ 637 000 000. The growth in the surplus may be attributed to additional sources of financing recorded under the retirement plans account and investments, loans and advances ; the variation in other non-budgetary accounts, however, has deteriorated.

With respect to financing, the variation in the long-term debt amounted to $ 942 000 000, that is, $ 38 000 000 less than forecast in the Budget Speech. This discrepancy, combined with the drop in net financial requirements, led to a $ 21 000 000 decrease in the government's cash position in 1988-1989, whereas no variation was initially forecast.

[1] The analysis of the government's financial transactions is based on the results derived from the budgetary and financial structure and the accounting practices in effect for fiscal 1988-1989.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1987-1988	1988-1989		
	Real results	Budget Speech 1988-05-12	Preliminary results[2]	Changes
Budgetary transactions				
Revenue	28 363.9	29 334.0	29 972.0	638.0
Expenditure for the current year	– 30 738.1[1]	– 30 934.0	– 30 934.0	—
Expenditure for the subsequent year prerecorded in 1988-1989	—	—	– 638.0	– 638.0
Deficit	– 2 374.2	– 1 600.0	– 1 600.0	—
Non-budgetary transactions				
Investments, loans and advances	– 680.3	– 767.0	– 672.0	95.0
Retirement plans account	2 203.0	1 241.0	1 634.0	393.0
Provision for financing the water purification program	12.2	14.0	15.0	1.0
Other accounts	– 539.8	132.0	– 340.0	– 472.0
Balance	995.1	620.0	637.0	17.0
Net financial requirements	**– 1 379.1**	**– 980.0**	**– 963.0**	**17.0**
Financing				
Change in cash position	173.2	—	21.0	21.0
Change in long-term debt	1 205.9	980.0	942.0	– 38.0
Total financing	**1 379.1**	**980.0**	**963.0**	**– 17.0**

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

[1] Including $ 848 800 000 for expenditure for subsequent years prerecorded in 1987-1988.

[2] The financial data for 1988-1989 shown in this table are based on results recorded from April 1988 to February 1989, and on an estimate, as at April 24, 1989, of revenue and expenditure to be posted up to the closing of the books on 1988-1989 transactions, in keeping with the accounting practices in effect.

Budgetary revenue

For the 1988-1989 fiscal year, budgetary revenue totalled $ 29 972 000 000, a 5.7 % increase compared to 10.9 % the previous year. Own-source revenue grew 6 %, while federal transfers rose by 4.4 %. Budgetary revenue was thus $ 638 000 000 higher than forecast in the Budget Speech of May 12, 1988, a variation resulting from the $ 606 000 000 increase in own-source revenue and the $ 32 000 000 rise in federal transfers.

SUMMARY OF THE EVOLUTION OF OWN-SOURCE REVENUE
(in millions of dollars)

	1987-1988	1988-1989			
	Real results	Budget Speech 1988-05-12	Preliminary results	Changes compared to Budget	Changes compared to 1987-1988
					(%)
Personal income tax	9 561.8	9 537.0	10 041.0	504.0	5.0
Corporate taxes	1 472.0	1 475.0	1 575.0	100.0	7.0
Retail sales tax	4 016.3	4 342.0	4 311.0	– 31.0	7.3
Natural resources	117.0	187.0	151.0	– 36.0	29.1
Interest	214.6	334.0	260.0	– 74.0	21.2
Loto-Québec	380.0	400.0	429.0	29.0	12.9
Hydro-Québec	508.0	583.0	619.0	36.0	21.9
Other	5 918.3	6 063.0	6 141.0	78.0	3.8
Total own-source revenue	**22 188.0**	**22 921.0**	**23 527.0**	**606.0**	**6.0**

Revenue from personal income tax was $ 504 000 000 higher than anticipated in the Budget Speech of May 12, 1988. This upward movement is due in part to improved growth in the income of taxpayers and to a $ 300 000 000 drop in income tax refunds, compared to expectations. In the last Budget Speech $ 550 000 000 had been put aside for additional refunds in March 1989, in order to allow taxpayers to benefit early in 1989 from the tax reduction announced for the 1988 taxation year. This reserve brought the refunds forecast for March 1989 to $ 640 000 000.

However, despite a public information campaign, the introduction of measures to accelerate the processing of refunds and the rapidity with which the ministère du Revenu worked in order to prepare returns in time to record them before March 31, 1989, taxpayers sent their income tax returns in more slowly than expected, and $ 340 000 000 had been refunded as at March 31, 1989.

Corporate taxes were up $ 100 000 000, mainly because taxable corporate profits grew much more quickly than anticipated.

Revenue from the retail sales tax dropped by $ 31 000 000, owing, among other things, to the negative impact of the increase in interest rates on automobile sales.

The drop in revenue from natural resources is basically the reflection of changes in the accounting method relating to forest resources ; henceforth, the cost of forest management works carried out by forest producers will be deducted from stumpage dues.

The $ 74 000 000 downward revision of interest revenue was mainly due to the fact that the interest on some of the accounts receivable of the ministère du Revenu will only be brought up to date during the next fiscal year.

The continued vigour of the economy and the appreciation of the Canadian dollar had a beneficial effect on Hydro-Québec's net profits which were up $ 36 000 000. However, the shortage of hydraulic power in 1988 and the strength of domestic demand put a damper on sales of surplus power, reducing the effect of these favourable factors.

SUMMARY OF THE EVOLUTION OF TRANSFERS FROM THE GOVERNMENT OF CANADA (in millions of dollars)

	1987-1988	1988-1989			
	Real results	Budget Speech 1988-05-12	Preliminary results	Changes compared to Budget	Changes compared to 1987-1988
					(%)
Equalization	3 090.7	3 198.0	3 511.0	313.0	13.6
Other transfers related to the fiscal arrangements	1 682.0	1 835.0	1 653.0	– 182.0	– 1.7
Contributions to welfare programs	1 032.0	1 127.0	1 037.0	– 90.0	0.5
Other programs	371.2	253.0	244.0	– 9.0	– 34.3
Total Government of Canada transfers	**6 175.9**	**6 413.0**	**6 445.0**	**32.0**	**4.4**

The preliminary results show a $ 32 000 000 increase in federal transfers. The rise in equalization payments more than offset the decrease in payments from the other federal transfer programs.

The $ 313 000 000 increase in equalization revenue is the result of two factors : the growth in provincial revenue subject to the equalization program, following the strong performance of the Canadian economy, and the updating of tax base data, which shows weaker relative tax capability in Québec for certain sources of revenue under the program.

The other transfers under federal tax agreements, which represent the federal contribution to health and post-secondary education programs, have been revised downwards by $ 182 000 000. This is the result of the combined effect of a reduction in the total contribution following the publication of new data on the Canadian gross national product for 1984 to 1987, and the increase in the value of the federal tax point used to calculate the tax transfer. The federal financial contribution has been reduced accordingly.

Contributions to welfare programs have dropped $ 90 000 000, compared to the budget forecast, because of lower shared expenditures and the adjustment of contributions for previous years.

Budgetary expenditure

Preliminary results for budgetary expenditure in the current year amounted to $ 30 934 000 000 for fiscal 1988-1989, as forecast in the Budget Speech of May 12, 1988. This represents an annual growth of 0.6 %. However, by adjusting data to take into account the recording of family allowances as deductions from budgetary revenue as of January 1, 1989 and the prerecording in 1987-1988 and 1988-1989 of certain government expenditures that could normally have been assumed only in future years, the annual rates of growth, on a comparable basis, become 5.8 % for 1988-1989 and 5.3 % for 1987-1988.

SUMMARY OF THE EVOLUTION OF EXPENDITURE
(in millions of dollars)

		1988-1989	
	Budget Speech 1988-05-12	Preliminary results	Changes
EXPENDITURE FOR THE CURRENT YEAR			
Initial estimates	31 516.4	31 516.4	—
Plus :			
☐ Supplementary estimates of June 15, 1988	146.3 [1]	146.3	—
☐ Supplementary estimates of December 19, 1988		288.7	288.7
☐ Supplementary estimates of March 22, 1989		31.4 [3]	31.4
☐ Supplementary estimates authorized under specific legislative provisions		5.4	5.4
☐ Overruns on permanent appropriations		13.0	13.0
Less :			
☐ Transfers of budget appropriations to investments, loans and advances		– 2.5	– 2.5
☐ Lapsed appropriations	– 645.3 [2]	– 935.6 [4]	– 290.3
☐ Change in the provision for losses on investments in shares	– 83.4	– 129.1	– 45.7
Total expenditure for current year	30 934.0	30 934.0	—
Total 1987-1988 expenditure		30 738.1	
% change		0.6	
EXPENDITURE FOR THE SUBSEQUENT YEAR PRERECORDED IN 1988-1989		638.0	
TOTAL EXPENDITURE RECORDED IN 1988-1989		31 572.0	

[1] Additional expenditures announced in the Budget Speech.

[2] Lapsed appropriations announced in the Budget Speech.

[3] Excluding $ 269 295 000 intended for prerecording expenditures in 1988-1989 for the subsequent year.

[4] Including $ 190 600 000 which has been reallocated in order to prerecord in 1988-1989 expenditures for the subsequent year.

EVOLUTION OF BUDGETARY EXPENDITURE
(in millions of dollars)

	1986-1987	1987-1988	1988-1989
Total expenditure	28 388.9	30 738.1	31 572.0
☐ Recording of family allowances as deductions from budgetary revenue as of January 1, 1989	– 210.2	– 219.0	– 170.0[1]
	28 178.7	30 519.1	31 402.0
☐ Impact of prerecording expenditure for :			
– 1987-1988	—	– 848.8	625.0
– 1988-1989	—	—	– 638.0
Expenditures on a comparable basis	**28 178.7**	**29 670.3**	**31 389.0**
% change		**5.3**	**5.8**

[1] Represents the amount posted under expenditure for the period April 1 to December 31, 1988.

Additional expenditure occasioned by the supplementary appropriations authorized during the year were fully offset by unexpended appropriations and by the reduction of the provision for losses on investments in shares.

The supplementary appropriations voted by the National Assembly during the year served first to cover the $ 146 300 000 in additional expenditure announced in the Budget Speech. They were also authorized, in particular, in order to meet an anticipated overexpenditure of $ 55 510 000 for services insured by the Régie de l'assurance-maladie du Québec, of $ 48 100 000 for social aid benefits, largely the result of the upward revision of the number of beneficiaries, and of changes made to the program, and of $ 31 900 000 derived principally from the costs related to the fire at Saint-Basile-le-Grand. Other monetary requirements that had been identified included $ 51 511 400 in operating subsidies for adult education in teaching institutions to accommodate a growing clientele, and $ 52 800 000 in costs relating to the health and social service programs.

Unexpended budgetary appropriations amounted to $ 938 100 000, of which $ 2 500 000 was transferred to investments, loans and advances.

The main elements in lapsed appropriations include a $ 192 000 000 reduction in the cost of the debt service. This variation may be explained in large part by a higher appreciation of Canadian currency in relation to various foreign currencies than was initially forecast. In addition, subsidies paid to the Société d'habitation du Québec were $ 30 500 000 lower than expected, in part because of the reduction in the cost of certain programs and a decrease in financial requirements compared to initial expectations that were mainly a result of the inflow of sums receivable from previous years.

Government contributions to the retirement plans were $ 190 600 000 less than allowed for in the appropriations. This drop is largely due to the impact of an additional $ 246 000 000 for 1988-1989 announced in the Budget Speech, following the prerecording in 1987-1988 of the government's contributions for past service. The increase in the government's contributions to current service, and the payment of interest on the balance of the account higher than originally estimated explain the remainder of the variation.

The effect of the recording of family allowances as deductions from budgetary revenue as of January 1, 1989 also generated lapsed appropriations of $ 59 000 000. The amount of the regular lapsed appropriations generated by the activities of the various departments accounts for the balance, which totalled $ 463 500 000 or 1.5 % of appropriations.

The $ 129 100 000 reduction in the provision for losses in share investments for fiscal 1988-1989 brought about an equivalent decrease in expenditure, which had been projected at $ 83 400 000 in the budget of May 12, 1988. This reduction in expenditure may be explained by the net profits of Sidbec which were higher than expected, making it possible to cut back the provision for losses for that company.

Finally, $ 638 000 000 charged to expenditure in the fiscal year ended March 31, 1989 in anticipation of expenditures the government could have assumed only the following year brought total expenditure for 1988-1989 to $ 31 572 000 000. Consequently, additional appropriations amounting to $ 269 295 000 were voted by the National Assembly last March 22 and $ 190 600 000 in appropriations that would normally have been lapsed were reallocated.

Additional expenditures were recorded to the tune of $ 93 295 000 in government contributions to the sinking fund for long-term borrowings made by educational institutions, and of $ 176 000 000 in social benefits. The latter consist mainly of social aid benefits that were payable on April 1, 1989, which was a Saturday. It was therefore decided to make them payable on March 31, 1989, so that beneficiaries could cash them without delay. Additional expenditures were also the result of $ 368 705 000 recorded as government contributions for past service under the retirement plans for employees in the public and parapublic sectors, which, for all practical purposes, represent a past debt entered in the books as an annual amortization.

Non-budgetary transactions

The surplus of non-budgetary transactions totals $ 637 000 000 in the preliminary figures, compared to an anticipated $ 620 000 000 announced in the Budget Speech in May 1988. This $ 17 000 000 increase is mainly the reflection of $ 393 000 000 in additional funds from the retirement plans account and financial requirements $ 95 000 000 lower than expected for investments, loans and advances, which were offset by a $ 472 000 000 reduction in the other non-budgetary accounts.

SUMMARY OF NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1988-1989		
	Budget Speech 1988-05-12	Preliminary results	Changes
Investments, loans and advances			
Enterprises of the gouvernement du Québec			
☐ Share capital and invested capital	– 654.4	– 744.1	– 89.7
☐ Loans and advances	– 74.6	68.8	143.4
Subtotal	– 729.0	– 675.3	53.7
Loans and advances to municipalities, municipal agencies, individuals, corporations and others	– 38.0	3.3	41.3
Total investments, loans and advances	– 767.0	– 672.0	95.0
Retirement plans account	1 241.0	1 634.0	393.0
Provision for financing the water purification program	14.0	15.0	1.0
Other accounts	132.0	– 340.0	– 472.0
Balance	**620.0**	**637.0**	**17.0**

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.

The $ 89 700 000 variation recorded for investments in the form of share capital and other capital invested in government enterprises is largely due to the conversion into share capital of $ 81 600 000 in advances granted Sidbec, the $ 49 100 000 increase in the profits of government corporations, to be consolidated without payment of the corresponding dividends, and the redemption by Soquem of $ 25 000 000 in share capital held by the government, following the privatization of Mines Seleine Inc. The $ 143 400 000 decrease in loans and advances to government enterprises is mainly the result of the conversion of the advances made to Sidbec, mentioned above, and the postponement until 1989-1990 of advances that were to have been made in 1988-1989, because of delays in various projects to be carried out by government corporations. The $ 41 300 000 variation in loans and advances to municipalities, municipal agencies, individuals, companies and others derives mainly from the $ 20 600 000 reduction in advances granted to special government funds and the unexpended $ 19 400 000 contingency fund that had been integrated into the initial estimates.

The surplus in the retirement plans account amounts to $ 1 634 000 000, $ 393 000 000 more than announced in the Budget Speech. This increase is essentially due to the recording of an additional contribution of $ 368 705 000 for past service under the retirement plans that normally could have been recorded in the subsequent fiscal year. The balance of the variation, $ 24 295 000, is mainly the result of the transfer from the Caisse de dépôt et placement du Québec to the government's retirement plans account of employee contributions to the retirement plans for certain teachers and for peace officers in penal institutions.

Transactions related to other non-budgetary accounts essentially represent year-to-year variations in the accounts and accrued interest payable and receivable by the government. These variations depend to a large extent on the timing of collection and disbursement transactions. In 1988-1989, the balance of other accounts shows a shortfall of $ 340 000 000, whereas a source of funds in the amount of $ 132 000 000 was anticipated in the Budget Speech. This variation is primarily the result of a $ 358 000 000 drop in the amount of accounts payable and outstanding cheques following, among other things, disbursements that were made to educational institutions earlier than expected. It also stems from the $ 137 000 000 increase in the balance of accounts receivable. This increase derives from higher remittances from agents in April, representing amounts they collected in March, and from the dividends of government corporations declared but not received at March 31, 1989.

Repayment of borrowings

Repayment of borrowings for fiscal 1988-1989 amounted to $ 2 249 000 000 compared to the $ 2 006 700 000 recorded the preceding year. These figures show an increase of $ 869 000 000 over the forecast in the Budget Speech. This variation is the result of three main factors. First, given the possibility of renegotiating under more favourable conditions a number of loans already made, the government took advantage of its call privilege to renegotiate borrowings of $ 605 700 000, which were not to fall due during the year; at the time of the budget, only $ 60 400 000, which the government had already decided to repay prior to maturity, had been integrated into the repayment forecast. In addition, $ 50 000 000 in Treasury bills was also repaid, despite plans to maintain outstanding bills at the level initially forecast.

Redemptions of savings bonds totalled $ 825 000 000, an increase of $ 280 000 000 compared to the figure announced in the Budget Speech. This rise is due to more requests than anticipated by bondholders for redemption prior to maturity, given the favourable evolution of interest rates on competing investment instruments. Savings bonds outstanding as at March 31, 1989 amounted to $ 2 360 290 000.

TOTAL SAVINGS BONDS OUTSTANDING
(in millions of dollars)

Total outstanding as at March 31, 1988		2 731.3
Plus : 1987 issue	1.6[1]	
1988 issue	452.4[2]	
		454.0
Less : Redemptions		825.0
Total outstanding as at March 31, 1989		**2 360.3**

[1] Amount received after March 31, 1988, from the issue of $ 545 965 000.

[2] Amount received as at March 31, 1989, from the issue of $ 454 000 000.

Financing

The Québec government borrowed $ 3 232 500 000 in fiscal 1988-1989, an increase of $ 32 900 000 compared to the preceding year. Of this amount, $ 2 626 800 000 was devoted to regular gross financing requirements and $ 605 700 000 to optional refinancing transactions designed to take advantage of more favourable financing terms. These figures are approximately the same as those recorded in 1987-1988.

The guidelines followed for the 1988-1989 borrowings were intended to increase the portion of the debt in Canadian dollars, refinance in the same currency borrowings that were repaid prior to maturity, emphasize active management of the outstanding debt, and keep the average period of maturity higher than 10 years for all new borrowings.

The following table summarizes the borrowings made in 1988-1989 in order to attain these objectives.

SUMMARY OF BORROWINGS
(in millions of dollars)

			1988-1989	
Market and currency	**Gross borrowing requirements**		**Optional refinancing**	
		(%)		(%)
Canadian dollar				
Canadian market				
☐ Public issues :				
Savings bonds	454.0	17.3		
Negotiable bonds	586.5	22.3		
☐ Private issues :				
Caisse de dépôt et placement du Québec	671.0	25.6		
Other private borrowings	143.8	5.5		
Eurodollar market (public borrowing)	250.0	9.5		
Asian market (private borrowing)	100.0	3.8		
Subtotal	2 205.3	84.0		
Other currencies				
☐ Public issues :				
US market	50.8	1.9	246.1	40.6
US eurodollar market	249.7	9.5		
Swiss franc market			181.6	30.0
Yen market	19.7	0.7	178.0	29.4
☐ Private issue :				
Asian market (Australian dollar)	101.3	3.9		
Subtotal	421.5	16.0	605.7	100.0
Total	**2 626.8**	**100.0**	**605.7**	**100.0**

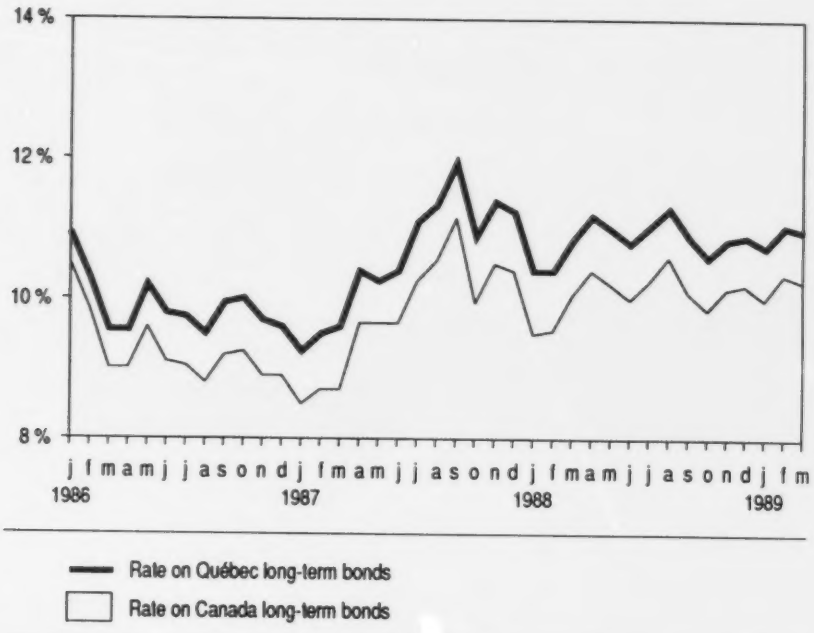
In particular, it will be noted that 84 % of the regular gross borrowings was made in Canadian dollars. This proportion reaches 95.4 % if we take into account the borrowings contracted on US markets and in US eurodollars, all or part of which were converted into Canadian dollars through forward currency exchange contracts. The Canadian market contributed 70.7 % to cover the government's gross borrowing requirements, since recourse to the Canadian public market had compensated for the reduction in financing by the Caisse de dépôt et placement du Québec, which fell to 25.6 % of all new borrowings compared to 40.7% the preceding year.

It will also be noted that optional refinancing was carried out in yen, Swiss francs and US dollars. The government's use of its call privilege to renegotiate during the year borrowings of $ 605 700 000 prior to maturity made it possible to achieve substantial savings in interest while extending the average maturity date of refinanced borrowings.

The terms of issue for Québec securities remained favourable in 1988-1989. For the first time, Québec was able to borrow outright a sum of $ 300 000 000 on the Canadian public market. Moreover, a loan with a 10-year period of maturity contracted on the US market made it possible to record the lowest interest rate differential for an issue of a Québec borrower in relation to US government securities with an equivalent term. The average maturity period of new borrowings was nearly 12 years.

In fiscal 1988-1989, the yield spread between Québec and Government of Canada securities with the same period of maturity remained approximately the same for a 10-year term, becoming slightly narrower for longer terms.

YIELD ON QUÉBEC AND CANADA LONG-TERM SECURITIES

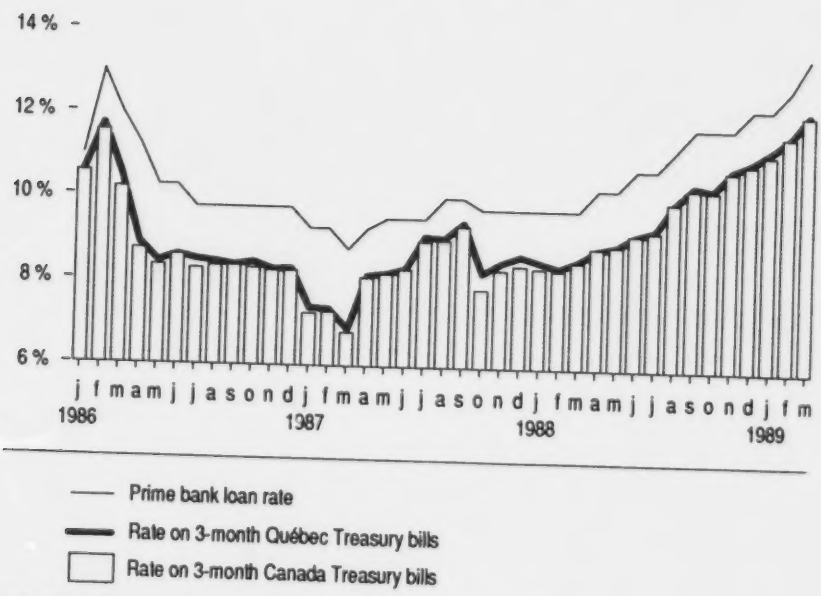

14 %
12 %
10 %
8 %
j f m a m j j a s o n d j f m a m j j a s o n d j f m a m j j a s o n d j f m
1986
1987
1988
1989
Rate on Québec long-term bonds
Rate on Canada long-term bonds

Source : RBC Dominion Securities Inc.

YIELD SPREAD ON QUÉBEC LONG-TERM SECURITIES AND OTHER SECURITIES

Source : RBC Dominion Securities Inc.

YIELD ON SHORT-TERM SECURITIES


14 %
12 %
10 %
8 %
6 %
j f m a m j j a s o n d j f m a m j j a s o n d j f m a m j j a s o n d j f m
1986
1987
1988
1989
Prime bank loan rate
Rate on 3-month Québec Treasury bills
Rate on 3-month Canada Treasury bills

Sources : Bank of Canada, Ministère des Finances du Québec.

The debt

The Québec government's debt, including total outstanding Treasury bills, stood at $ 27 091 000 000 as at March 31, 1989. The proportion in Canadian dollars rose in 1988-1989 from 68.4 % to 70.4 %, while that in foreign currencies declined to 29.6 %. During the same period, the proportion of the debt at fixed rates increased from 82.4 % to 83.7 %, while that at floating rates was 16.3 % at the end of the fiscal year.

However, certain interest rate and currency exchange transactions related to the servicing of borrowings, and made by the government over the past few years, have enabled the government to alter the structure of its debt. In this way, the share of the government's commitments to be met in Canadian dollars for the repayment of its debt was increased to 74.5 %, while the proportion of its commitments bearing interest at fixed rates was increased to 83.9 %.

The average weighted maturity of the government's total debt, excluding savings bonds and Treasury bills, was reduced slightly, from 10.3 years as at March 31, 1988 to 10 years as at March 31, 1989. Savings bonds outstanding decreased during the year to a total of $ 2 360 290 000 as at March 31, 1989, i.e. 8.7 % of the total government debt, while Treasury bills outstanding totalled $ 1 705 000 000, or 6.3%.

GOVERNMENT DEBT
PRELIMINARY RESULTS AS AT MARCH 31, 1989
(in millions of dollars)

Currency	Before exchange transactions		After exchange transactions	
		(%)		(%)
Canadian dollar	19 080	70.4	20 188	74.5
US dollar	4 230	15.6	3 155	11.6
Japanese yen	1 808	6.7	1 708	6.3
German mark	899	3.3	802	3.0
Swiss franc	610	2.3	938	3.5
Pound sterling	214	0.8	151	0.6
French franc	149	0.5	149	0.5
Australian dollar	101	0.4		
	27 091	**100.0**	**27 091**	**100.0**

Note : The debt in foreign currency is expressed in the Canadian equivalent, at the exchange rates effective at March 31, 1989, except for borrowings under currency exchange contracts in Canadian dollars which are expressed at the exchange rates specified in the contracts.

Public sector borrowings and investments

During the 1988 calendar year, gross long-term borrowings in the public sector totalled $ 8 849 000 000, an increase of $ 834 000 000 in relation to the preceding year. This increase in gross borrowings is attributable to the Québec government, the educational institutions, and the health and welfare establishments.

LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

	Calendar year					
	1983	1984	1985	1986	1987	1988[1]
Gross borrowings						
Government[2]	2 407	3 209	3 015	4 092	2 852	3 542
Educational institutions[3]	421	791	688	668	657	717
Health and welfare institutions	92	134	212	148	280	389
Hydro-Québec[2]	1 792	1 100	1 602	2 199	1 833	1 823
Other government corporations	502	599	1 397	1 103	623	690
Municipal agencies	938	1 201	1 330	1 451	1 770	1 688
Total	**6 152**	**7 034**	**8 244**	**9 661**	**8 015**	**8 849**
Repayments	**2 267**	**3 470**	**4 007**	**5 242**	**5 051**	**4 924**
Net borrowings	**3 885**	**3 564**	**4 237**	**4 419**	**2 964**	**3 925**

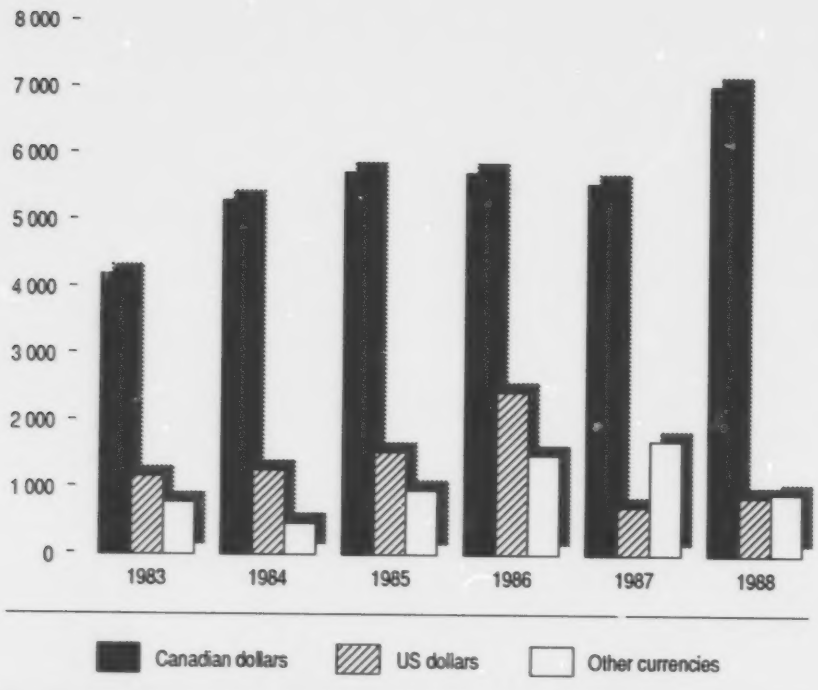
[1] Preliminary results.

[2] Amounts borrowed during the calendar year, excluding less-than-one-year net borrowings as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

[3] Including all the universities in Québec.

Source : Ministère des Finances du Québec.

GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY
(in millions of dollars)

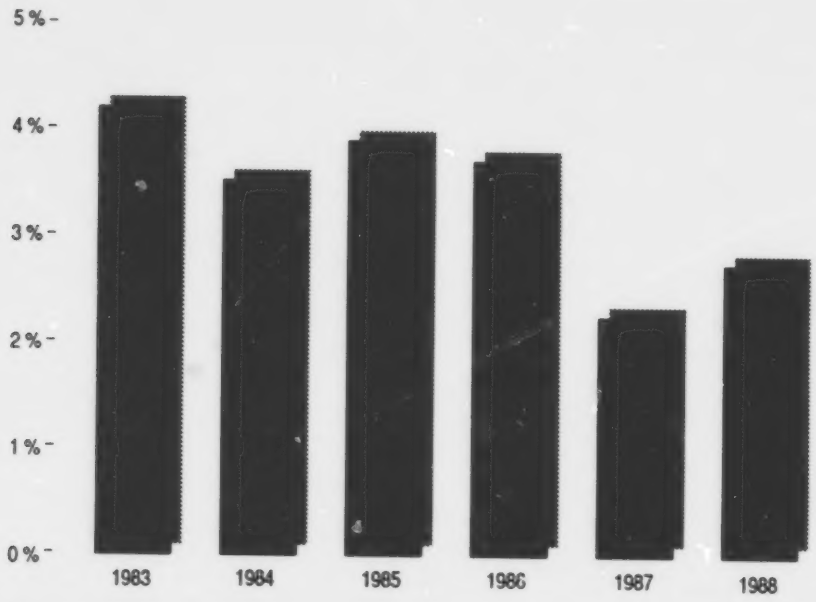


Source : Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled $ 7 047 000 000 in 1988, which represents 79.6 % of total public sector borrowings. Gross borrowings in American dollars reached $ 874 000 000, or 9.9 % of total gross borrowings; borrowings in other currencies amounted to $ 928 000 000, or 10.5 % of the total.

Taking into account refinancing and repayments, net public sector borrowings were an estimated $ 3 925 000 000 in 1988. The net borrowings represented 2.75 % of the gross domestic product in 1988, significantly less than the average for the five preceding years.

NET PUBLIC SECTOR BORROWINGS COMPARED TO GROSS DOMESTIC PRODUCT



Source : Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS
(in millions of dollars)

	Calendar year					
	1983	1984	1985	1986	1987	1988[1]
Government[2]	742	847	822	664	708	861
Educational institutions[3]	289	298	321	296	273	242
Health and welfare institutions[3]	182	164	248	249	266	326
Hydro-Québec[4]	2 248	1 681	1 615	1 537	1 688	2 107
Other government corporations[5]	369	313	676	663	761	793
Municipal agencies[6]	953	1 130	1 763	1 503	1 461	1 789
Total	**4 783**	**4 433**	**5 445**	**4 912**	**5 157**	**6 118**

[1] Preliminary results.

[2] Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments within the public sector are excluded.

Sources : The Estimates and Public Accounts.

[3] Investments by school boards, colleges and universities and health and welfare institutions include only capital expenditures for new projects, as defined for the purposes of economic accounting.

Source : Bureau de la statistique du Québec.

[4] *Source* : Hydro-Québec.

[5] Government corporation investments correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal agencies".

Sources : Financial statements of government corporations.

[6] Investments by municipalities, urban and regional communities and transport commissions and corporations include only capital expenditures for new projects, as defined for the purposes of economic accounting.

Source : Ministère des Finances du Québec.

In 1988, public sector investments totalled $ 6 118 000 000, an increase of 18.6 % compared to 1987. As the preceding table shows, this increase is primarily attributable to Hydro-Québec, municipal agencies and the Québec government.

In order to take into account the relation between the government's financial policy and the state of the various sectors under government jurisdiction, comparative changes in borrowings and investments must take into consideration the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills issued by the government, as well as borrowings from the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (in millions of dollars)

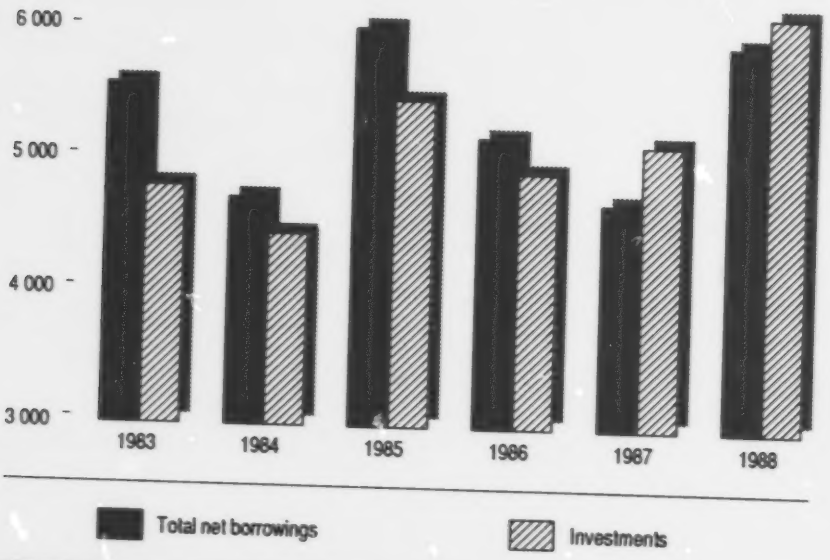
	Calendar year					
	1983	1984	1985	1986	1987	1988[1]
Net long-term borrowings	3 885	3 564	4 237	4 419	2 964	3 925
Less-than-one-year net borrowings made as long-term financing transactions	636	– 20	506	– 561	224	– 40
Surplus from the government retirement plans account	1 027	1 153	1 247	1 313	1 498	2 005
Total net borrowings	**5 548**	**4 697**	**5 990**	**5 171**	**4 686**	**5 890**
Investments	**4 783**	**4 433**	**5 445**	**4 912**	**5 157**	**6 118**
Ratio	**1.16**	**1.06**	**1.10**	**1.05**	**0.91**	**0.96**

[1] Preliminary results.

Source : Ministère des Finances du Québec.

Total net public sector borrowings in 1988 were an estimated $ 5 890 000 000. The ratio of total net borrowings to investments is 0.96, investments remaining greater than net borrowings for the second consecutive year.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (in millions of dollars)



Source : Ministère des Finances du Québec.

Historical data and preliminary results

The preliminary results published for 1988-1989 and the data presented for previous years have, for purposes of comparison, been adjusted on the basis of the financial and budgetary structure and the accounting practices in effect for the 1989-1990 fiscal year.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989 [3]
1. Budgetary transactions [1]					
Revenue	22 065.4	23 983.6	25 359.5	28 144.9	29 802.0
Expenditure	– 25 861.1	– 27 327.5	– 28 178.7	– 30 519.1 [4]	– 31 402.0 [4]
Deficit	**– 3 795.7**	**– 3 343.9**	**– 2 819.2**	**– 2 374.2**	**– 1 600.0**
2. Non-budgetary transactions					
Investments, loans and advances	– 167.4	40.4	– 379.7	– 680.3	– 672.0
Retirement plans account	1 183.5	1 269.0	1 354.8	2 203.0	1 634.0
Provision for financing the water purification program	—	4.3	9.8	12.2	15.0
Other accounts	766.4	290.2	83.7	– 539.8	– 340.0
Balance	**1 782.5**	**1 603.9**	**1 068.6**	**995.1**	**637.0**
3. Net financial requirements	**– 2 013.2**	**– 1 740.0**	**– 1 750.6**	**– 1 379.1**	**– 963.0**
4. Financing					
Change in cash position	– 211.0	– 18.0	– 80.9	173.2	21.0
Change in long-term debt [2]	2 224.2	1 758.0	1 831.5	1 205.9	942.0
Total financing	**2 013.2**	**1 740.0**	**1 750.6**	**1 379.1**	**963.0**

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

[1] The total revenue is made up of amounts credited to the consolidated revenue fund and to the health services fund, whereas expenditure includes the amounts charged to these two funds.

[2] Including new borrowings and the change in the net debt resulting from the amortization of the variation in foreign exchange (see table on financing transactions), less repayments of borrowings, but excluding the unamortized portion of the variation in foreign exchange which has no effect on the government's financial transactions.

[3] The financial data for 1988-1989 shown in this table are based on results recorded from April 1988 to February 1989, and on an estimate, as at April 24, 1989, of revenue and expenditure to be posted up to the closing of the books on 1988-1989 transactions, in keeping with the accounting practices in effect.

[4] Including $ 848 800 000 and $ 638 000 000 in additional expenditures entered in 1987-1988 and 1988-1989 respectively, which could have been charged to subsequent years.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
1. Income and property taxes					
Personal income tax	7 126.9	7 966.4	8 427.7	9 561.8	10 041.0
Employer contributions to health services fund	1 509.5	1 600.8	1 828.9	2 049.2	2 158.0
Corporate taxes [1]	996.4	1 082.0	1 216.9	1 472.0	1 575.0
Succession duties	45.1	30.5	9.2	– 1.0	2.0
	9 677.9	**10 679.7**	**11 482.7**	**13 082.0**	**13 776.0**
2. Commodity taxes					
Retail sales	2 575.1	3 175.7	3 624.3	4 016.3	4 311.0
Fuel	1 030.4	1 084.1	1 144.7	1 183.9	1 229.0
Tobacco	373.5	534.8	569.3	531.8	544.0
Meals and hotels	303.4	327.7	361.3	402.7	434.0
Other [2]	112.4	126.9	138.8	149.1	157.0
	4 394.8	**5 249.2**	**5 838.4**	**6 283.8**	**6 675.0**
3. Duties and permits					
Motor vehicles	273.3	283.9	313.9	369.6	357.0
Alcoholic beverages	67.2	70.1	74.5	58.6	57.0
Natural resources [3]	96.2	93.3	94.2	117.0	151.0
Pari-mutuel	29.7	26.4	27.0	26.8	23.0
Other	70.9	84.3	92.0	107.8	119.0
	537.3	**558.0**	**601.6**	**679.8**	**707.0**
4. Miscellaneous					
Sale of goods and services	225.1	207.9	264.4	231.9	235.0
Interest	270.1	214.7	245.8	214.6	260.0
Fines, confiscations and recoveries	92.7	116.3	159.4	244.2	256.0
	587.9	**538.9**	**669.6**	**690.7**	**751.0**
5. Revenue from government corporations [4]					
Société des alcools du Québec	340.5	356.8	360.7	370.1	381.0
Loto-Québec	252.9	302.7	360.4	380.0	429.0
Hydro-Québec	300.8	209.0	303.0	508.0	619.0
Other government corporations	– 87.5	70.2	81.2	193.6	189.0
	806.7	**938.7**	**1 105.3**	**1 451.7**	**1 618.0**
Total own-source revenue	**16 004.6**	**17 964.5**	**19 697.6**	**22 188.0**	**23 527.0**

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE (cont.)
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
6. Government of Canada transfers					
Equalization	3 101.6	2 854.1	2 747.8	3 090.7	3 511.0
Other transfers related to fiscal arrangements	1 833.4	1 941.7	1 821.9	1 682.0	1 653.0
Contributions to welfare programs	1 147.8	1 198.3	1 107.8	1 032.0	1 037.0
Other programs	177.9	226.9	194.6	371.2	244.0
Total Government of Canada transfers	**6 260.7**	**6 221.0**	**5 872.1**	**6 175.9**	**6 445.0**
	22 265.3	**24 185.5**	**25 569.7**	**28 363.9**	**29 972.0**
Less : Family allowances[5]	**199.9**	**201.9**	**210.2**	**219.0**	**170.0[6]**
Total budgetary revenue	**22 065.4**	**23 983.6**	**25 359.5**	**28 144.9**	**29 802.0**

[1] Includes tax on corporate profits, on capital and the corresponding tax on premiums for insurance companies.

[2] Includes tax on telecommunications and on electronic advertising.

[3] Includes forest, mining and water resources.

[4] Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which is consolidated with a corresponding reevaluation of the investment held by the government.

[5] Revenues have been changed to take account of the recording of family allowances as deductions from budgetary revenue as of January 1, 1989, so that they are now deducted from personal income tax revenue.

[6] Family allowances for the period April 1 to December 31, 1988.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and Agencies	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
Affaires culturelles	161.5	184.7	175.9	196.6	229.1
Affaires internationales	62.8	77.6	74.6	83.5	84.2
Affaires municipales	581.8	613.6	654.7	588.1	567.0
Agriculture, Pêcheries et Alimentation	458.6	517.7	506.0	549.7	575.0
Approvisionnements et Services	162.4	43.1	52.0	50.6	52.8
Assemblée nationale	42.9	59.5	51.9	56.1	61.5
Communautés culturelles et Immigration	27.8	28.7	28.5	33.2	39.2
Communications	181.1	199.4	196.4	181.9	113.6
Conseil exécutif	37.1	47.4	33.9	33.7	37.6
Conseil du trésor	13.1	16.0	16.9	16.9	18.3
Éducation	4 404.5	4 582.2	4 711.6	5 051.9	5 352.5
Énergie et Ressources	347.6	360.4	358.3	394.1	489.1
Enseignement supérieur et Science	2 194.1	2 316.8	2 443.1	2 639.5	2 830.6
Environnement	141.4	190.0	253.0	293.7	359.3
Finances	2 511.5	2 761.8	2 845.1	2 861.6	2 822.4
Industrie, Commerce et Technologie	340.6	349.3	344.3	244.8	331.4
Justice	247.8	310.3	317.0	363.5	382.6
Loisir, Chasse et Pêche	231.9	235.5	203.8	200.1	210.3
Main-d'oeuvre et Sécurité du revenu	2 608.9	2 858.6	2 894.9	3 074.8	2 890.4
Office de planification et de développement du Québec	52.9	46.8	39.1	44.3	48.9
Organismes relevant du ministre délégué à l'Administration	927.0	1 014.9	1 104.7	1 768.2	1 216.9
Organismes relevant de la ministre déléguée à la Condition féminine	59.4	76.9	86.3	98.1	106.0
Organismes relevant du ministre responsable de l'application de la Charte de la langue française	17.9	21.3	19.7	20.2	21.7
Personnes désignées par l'Assemblée nationale	38.5	62.3	23.6	25.3	27.8
Régie de l'assurance-maladie du Québec	1 456.5	1 608.3	1 745.6	1 889.5	2 067.0
Revenu	230.5	247.8	259.5	281.9	281.8
Santé et Services sociaux	5 951.3	6 198.8	6 579.3	7 151.3	7 684.1
Sécurité publique	472.8	537.9	541.8	626.4	705.3
Tourisme	68.6	75.9	69.2	69.1	76.0
Transports	1 619.4	1 660.8	1 596.3	1 686.2	1 816.5
Travail	73.0	65.4	54.8	82.3	101.2
Travaux publics et Approvisionnement	150.6	—	—	—	—
Subtotal	**25 875.8**	**27 369.7**	**28 281.8**	**30 660.8**	**31 600.1**
Provision for bad debts	**122.4**	**88.9**	**108.3**	**90.5**	**101.0**
Provision for losses on investments in share capital [1]	**62.8**	**70.8**	**– 1.2**	**– 13.2**	**– 129.1**
	26 061.0	**27 529.4**	**28 388.9**	**30 738.1**	**31 572.0**
Less : Family allowances [2]	**199.9**	**201.9**	**210.2**	**219.0**	**170.0 [4]**
Total budgetary expenditure	**25 861.1**	**27 327.5**	**28 178.7**	**30 519.1 [3]**	**31 402.0 [3]**

[1] Provision made when the accumulated deficit of a government corporation is higher than the cost of investment in share capital held by the government.

[2] Expenditures have been changed to take account of the recording of family allowances as deductions from budgetary revenue as of January 1, 1989, so that they are now deducted from personal income tax revenue.

[3] Including $ 848 800 000 and $ 638 000 000 in additional expenditures entered in 1987-1988 and 1988-1989 respectively, which could have been charged to subsequent years.

[4] Family allowances for the period April 1 to December 31, 1988.

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
1. Investments, loans and advances					
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC					
SHARE CAPITAL AND INVESTED CAPITAL :					
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 0.5	– 18.8	– 27.0	– 2.5	– 17.5
Société générale de financement (SGF)	– 51.5	– 49.3	– 20.0	—	—
Société québécoise d'exploration minière (SOQUEM)	– 11.6	—	—	—	25.0
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	– 5.4	– 4.0	—	—	—
Société québécoise d'initiatives pétrolières (SOQUIP)	– 39.9	—	– 10.0	—	—
Other	– 16.5	– 22.4	– 7.1	– 1.3	– 85.3 [3]
	– 125.4	**– 94.5**	**– 64.1**	**– 3.8**	**– 77.8**
CHANGE IN THE EQUITY VALUE OF INVESTMENTS [1]	– 32.9	– 162.6	– 428.8	– 690.6	– 666.3
LOANS AND ADVANCES :					
Office du crédit agricole du Québec	11.9	160.0	—	—	—
Sidbec	– 36.8	9.6	—	– 6.8	81.6 [3]
Société de développement industriel du Québec (SDI)	– 0.1	– 11.0	– 36.3	– 56.1	– 79.7
Société immobilière du Québec (SIQ)	—	147.0	155.0	75.0	75.0
Other	13.3	– 6.8	31.9	17.3	– 8.1
	– 11.7	**298.8**	**150.6**	**29.4**	**68.8**
Total enterprises of the gouvernement du Québec	**– 170.0**	**41.7**	**– 342.3**	**– 665.0**	**– 675.3**
MUNICIPALITIES AND MUNICIPAL AGENCIES	1.5	1.5	0.3	2.2	2.5
INDIVIDUALS, CORPORATIONS AND OTHERS	1.1	– 2.8	– 37.7	– 17.5	0.8
Total investments, loans and advances	**– 167.4**	**40.4**	**– 379.7**	**– 680.3**	**– 672.0**

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS (cont.)
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
2. Retirement plans account					
EMPLOYER AND EMPLOYEE CONTRIBUTIONS					
Contributions by the government as employer					
RREGOP					
☐ Current service	314.7	318.1	316.9	298.8	326.7
☐ Past service	—	—	—	244.7	111.2
☐ Interest	379.4	438.8	492.1	551.4	659.4
Other plans					
☐ Current service	167.1	164.0	149.5	161.9	166.8
☐ Past service	337.0	360.3	386.7	957.4	311.5
☐ Interest	218.4	267.1	310.1	372.6	489.2
Total	**1 416.6**	**1 548.3**	**1 655.3**	**2 586.8**	**2 064.8**
Independent agencies					
☐ Current service	4.9	5.0	5.1	4.9	4.9
☐ Past service	17.0	17.0	17.0	17.0	17.0
Total	**21.9**	**22.0**	**22.1**	**21.9**	**21.9**
Employee contributions	**153.5**	**148.9**	**219.1**	**175.9**	**187.4**
Total contributions	**1 592.0**	**1 719.2**	**1 896.5**	**2 784.6**	**2 274.1**
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	– 389.6	– 433.2	– 511.8	– 553.1	– 615.1
Other outlays	– 18.9	– 17.0	– 29.9	– 28.5	– 25.0
Total	**– 408.5**	**– 450.2**	**– 541.7**	**– 581.6**	**– 640.1**
Total retirement plans account	**1 183.5**	**1 269.0**	**1 354.8**	**2 203.0**	**1 634.0**
3. Provision for financing the water purification program [2]	**—**	**4.3**	**9.8**	**12.2**	**15.0**
4. Other accounts					
Cash and negotiable securities in hand and outstanding deposits	– 15.4	38.3	– 32.2	– 93.6	78.0
Outstanding cheques	89.2	38.1	– 41.7	35.1	48.0
Clearing accounts for collected taxes	18.5	38.5	34.0	33.5	15.0
Accounts receivable	23.2	– 156.6	– 286.2	– 14.5	– 256.0
Accrued interest receivable	1.0	4.2	0.4	– 0.4	– 2.0
Advances from the trust funds	3.0	1.9	– 2.4	– 1.6	2.0
Accounts payable	468.4	240.6	288.1	– 498.4	– 280.0
Accrued interest payable	180.6	89.4	114.3	76.8	54.0
Deferred expenses	– 2.1	– 4.2	9.4	– 76.7	1.0
Total other accounts	**766.4**	**290.2**	**83.7**	**– 539.8**	**– 340.0**
Total non-budgetary transactions	**1 782.5**	**1 603.9**	**1 068.6**	**995.1**	**637.0**

[1] Net amount including the change in the provision for losses on investments in shares.

[2] The cash inflow under this account is made up of government contributions to the repayment of the long-term borrowings of the Société québécoise d'assainissement des eaux. The cash outflow represents the payments made at the time these borrowings are due.

[3] Including $ 81 600 000 for the conversion into share capital of advances granted to Sidbec in previous years.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
(in millions of dollars)

	1984-1985	1985-1986	1986-1987	1987-1988	Preliminary results 1988-1989
1. Change in cash position	**– 211.0**	**– 18.0**	**– 80.9**	**173.2**	**21.0**
2. Change in long-term debt [1]					
New borrowings	3 281.0	2 992.5	4 396.0	3 199.6	3 232.5
Change in the debt resulting from the amortization of the variation in foreign exchange [2]	43.1	69.0	13.1	13.0	– 41.5
Repayment of borrowings	– 1 099.9	– 1 303.5	– 2 577.6	– 2 006.7	– 2 249.0
Total change in long-term debt	**2 224.2**	**1 758.0**	**1 831.5**	**1 205.9**	**942.0**
Total financing	**2 013.2**	**1 740.0**	**1 750.6**	**1 379.1**	**963.0**

[1] Excluding the unamortized portion of the variation in foreign exchange which has no effect on the government's financial transactions.

[2] Account shown in consideration of the amortization of the variation in foreign exchange charged to expenditure, which affects net financial requirements, without requiring disbursements, as part of the conversion of the debt in foreign currencies into current exchange rates.

BORROWINGS BY THE GOUVERNEMENT DU QUÉBEC IN 1988-1989

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
181.6	200.0 SF	5.00 *	April 7	2008-04-07	101.00	4.86
249.7 [4]	200.0 US	9.00 *	April 7	1998-04-07	100.50	8.73
100.0	—	9.25	April 22	1998-06-19	97.616	9.619
197.7	20 000.0 Yen	5.50	April 25	2003-04-25	100.00	5.50
1.6 [5]	—	10.50/6.00	June 1	1997-06-01	100.00	9.08 [6]
452.4 [7]	—	10.50/6.00	June 1	1998-06-01	100.00	9.10 [6]
75.0 [8]	—	10.25	June 30	1998-04-07	98.437	10.50
75.0 [8]	—	11.00	June 30	2009-04-01	99.875	11.01
100.0	—	10.25	July 5	1998-04-07	98.50	10.49
75.0 [8]	—	10.25	July 5	1998-04-07	98.50	10.49
25.0	—	10.25	July 5	1998-04-07	98.50	10.49
200.0	—	11.00	July 5	2009-04-01	99.875	11.01
50.0	—	11.00	July 5	2009-04-01	99.875	11.01
50.0 [8]	—	10.25	Oct. 20	1998-04-07	97.50	10.67
100.0 [8]	—	11.00	Oct. 20	2009-04-01	100.29	10.96
101.3 [4]	100.0 Aus.	6.67 *	Nov. 29	1998-11-29	100.00	6.56
250.0	—	10.50 *	Nov. 30	1998-11-30	101.45	10.01
25.0 [8]	—	11.00	Dec. 22	2009-04-01	101.125	10.857
100.0 [8]	—	10.25	Dec. 22	1998-04-07	97.50	10.67
50.0	—	10.25	Dec. 22	1998-04-07	97.50	10.67
286.5	—	10.25	Dec. 22	1998-04-07	97.50	10.67
296.9 [4]	250.0 US	9.375	Feb. 1	1999-04-01	99.80	9.402
121.0 [8]	—	10.50	March 31	1995-06-26	96.777	11.24
50.0 [8]	—	11.00	March 31	2009-04-01	99.713	11.036
5.3 [9]	—	Misc.	Varied	Varied	100.00	Misc.
10.1 [10]	—	Misc.	Varied	Varied	Misc.	Misc.
3.4 [11]	2.8 US	8.56	Varied	1995-12-04	100.00	Variable
3 232.5						

* Interest payable annually.

[1] Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

[2] Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

[3] Yield to buyer is determined on the basis of interest payable every six months.

[4] Borrowings made partly or fully under exchange contracts.

[5] Amount cashed from the June 1, 1987 Québec Savings Bonds issue. The interest rate on these bonds was 8 % from June 1, 1987 to October 31, 1987, 9 % from November 1, 1987 to May 31, 1988, 8.5 % from June 1, 1988 to October 31, 1988, and 9.5 % from November 1, 1988 to February 28, 1989. It was then set at 10.5 % for the period from March 1, 1989 to May 31, 1989. Minimum interest will be 6 % until May 31, 1997.

[6] Rate of return for the period April 1, 1988 to March 31, 1989.

[7] Amount cashed from the June 1, 1988 Québec Savings Bonds issue. The interest rate on these bonds was 8.5 % from June 1, 1988 to October 31, 1988, and 9.5 % from November 1, 1988, to February 28, 1989. It was then set at 10.5 % for the period March 1, 1989 to May 31, 1989. Minimum interest will be 6 % until May 31, 1998.

[8] The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

[9] Borrowings from the Government of Canada under the agreement on the funds collected under the Canada Pension Plan.

[10] Interest capitalized on high rate discount borrowings, including $ 7 506 088 related to borrowings in US dollars.

[11] Increase in the debt attributable to fluctuations in the exchange rate on the amount drawn in foreign currency under a credit agreement.

Note : The gouvernement du Québec has credit agreements with various banks and financial institutions for a total of $ 1 000 000 000 that can be drawn in Canadian dollars or their equivalent in other currencies.

BORROWINGS BY HYDRO-QUÉBEC IN 1988

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
318.9	250.0 US	9.75	Jan. 15	2018-01-15	100.00	9.75
25.0 [4]	—	9.75	Feb. 17	1997-07-16	97.825	10.11
133.0	—	9.75	Feb. 17	1997-07-16	97.825	10.11
25.0 [4]	—	10.25	Feb. 17	2012-07-16	96.94	10.60
167.0	—	10.25	Feb. 17	2012-07-16	96.94	10.60
89.1	100.0 SF	4.625 *	March 24	1998-03-24	101.00	4.45
89.1	100.0 SF	5.00 *	March 24	2008-04-24	100.00	4.94
125.0	—	10.25 *	May 11	1995-05-11	101.50	9.52
100.0 [5]	10 000.0 Yen	5.50	May 25	1998-05-25	100.00	5.50
50.0	—	12.25	June 2	2006-02-06	108.38	11.15
175.2 [5]	75.0 PS	9.625 *	June 6	1995-06-06	101.375	9.14
100.0	—	11.25	June 8	2008-06-01	100.00	11.25
67.2 [6,7]	55.0 US	Misc.	June 23	Varied	Misc.	Misc.
250.0	—	10.75	Sept. 27	1999-02-01	100.00	10.75
100.0 [4]	—	10.75	Sept. 27	1999-02-01	100.00	10.75
10.0	—	10.75	Sept. 27	1999-02-01	100.00	10.75
5.0	—	10.75	Sept. 27	1999-02-01	100.00	10.75
185.2	150.0 US	9.75 *	Sept. 29	1998-09-29	101.50	9.29
23.9	20.0 US	9.30	Oct. 28	1998-10-28	100.00	9.30
6.1	5.0 US	9.23	Nov. 3	1998-11-03	100.00	9.23
2 044.7						

* Interest payable annually.

[1] Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

[2] Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

[3] Yield to the buyer is determined on the basis of interest payable every six months.

[4] The Caisse de dépôt et placement du Québec subscribed in part or in full for these bond issues.

[5] Borrowing under a currency exchange contract and interest rate exchange contract.

[6] Borrowing under a currency exchange contract.

[7] Notes issued and delivered in 1988 under short-term commercial paper program.

Note : At December 31, 1988, Hydro-Québec had a credit agreement of $ 1 150 000 000 available in US dollars, of which $ 750 000 000 may also be available for its equivalent in Canadian dollars.

APPENDIX D

Review of the Economic Situation in 1988 and Outlook

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Overview

In 1988, Québec experienced outstanding economic growth. Real domestic product, boosted by household demand and a pronounced increase in non-residential investment, rose by 4.9 %. Once again, growth exceeded results recorded nationally and was far higher than in most OECD countries. This favourable situation resulted in 83 000 new jobs and the unemployment rate fell to 9.4 %, its lowest level since 1976.

The situation in Canada and Québec over the next two years, however, will not be as promising as it was up to last year. Not only is a world-wide economic slowdown expected during the next few months, but the trend in macroeconomic policies in Canada has grown decidedly restrictive. On the one hand, the strong performance of the economy in 1988 revived fears of increased inflationary pressures, so that Canadian monetary policy was tightened considerably. Short-term interest rates have risen 400 basis points in the past year. On the other hand, federal budget measures announced last April will strip over 1 % a year from Canadian gross domestic product, mainly through increases in income and indirect taxes.

The consequences of the Canadian macroeconomic policies now in force will go far beyond the short-term, limiting the outlook for economic growth over the next few years. In 1989, the negative effects of these policies will be offset in part by the reduction in the tax burden of households announced last year and by the strong growth forecast for non-residential investment, resulting from the sound financial position of businesses and reinforced by Hydro-Québec's capital expenditure program. However, the effects of these restrictive policies will be much more strongly felt in 1990.

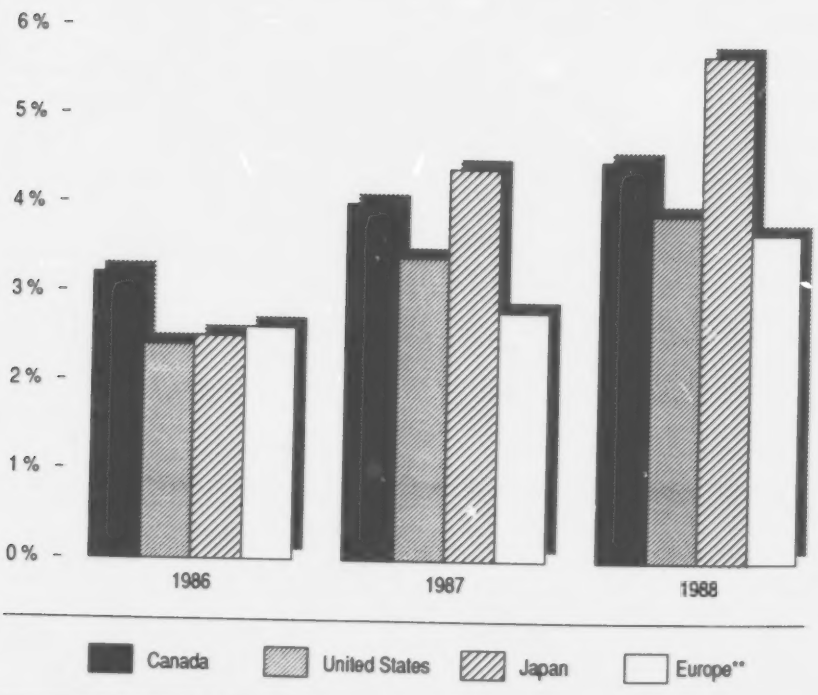
Economic growth in Québec is thus expected to be 2.8 % this year but should be limited to 1.8 % next year. At the same time, the increase in indirect taxes announced in the federal budget on April 27, the rise in the price of crude oil and the effect of last year's drought on food prices should push inflation in Canada up from 4.1 % in 1988 to 4.9 % this year.

Economic situation in 1988

The External environment

Despite the stock market correction in October 1987, economic growth throughout the world continued to gain strength last year. In the United States, it was feared that the loss of consumer confidence following the stock market crash would erode household demand and that the rising cost of capital would prevent business from investing sufficiently to take full advantage of the strong export demand anticipated at the time. This was not the case. Not only did the long awaited adjustment of the trade imbalance materialize in the course of the year, but business increased its investment in response to the sharp upswing in exports and cash reserves and to increasing constraints on capacity. Production thus grew 3.9 % while household income and employment were able not only to sustain the purchase of personal goods and services, but also to contribute to a somewhat higher rate of savings nation-wide.

GROSS NATIONAL PRODUCT* OF SELECTED OECD COUNTRIES
(annual change)



* Gross national product or gross domestic product, in volume.

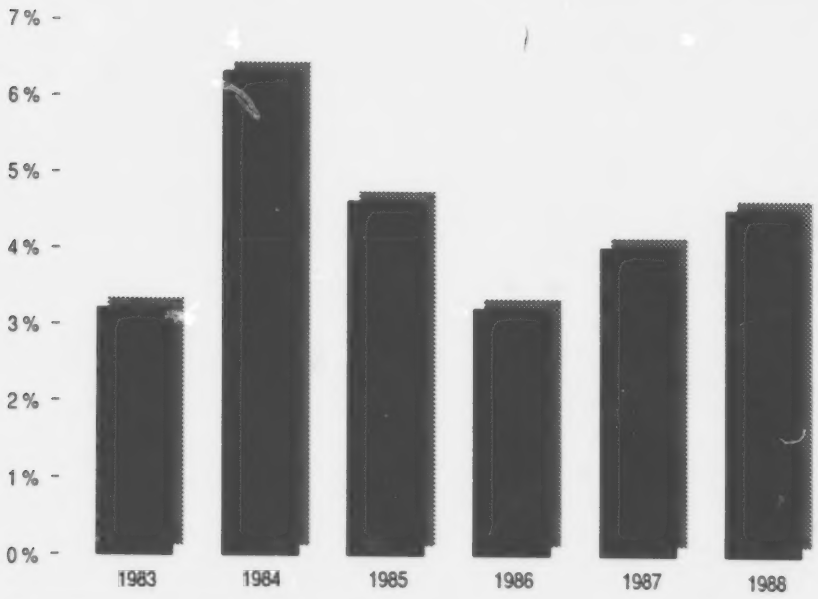
** Four major European countries: Germany, France, Italy, United Kingdom.

Sources : Statistics Canada.
Main Economic Indicators, OECD, March 1989.

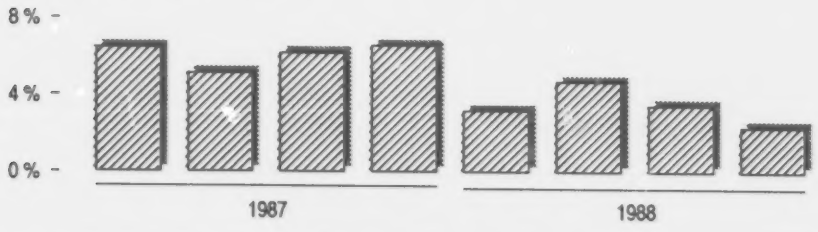
While the realignment of currencies in recent years gave a definite boost to the US economy, the strength of domestic demand in the other major countries came as a surprise. Business investment and personal consumption flourished. Economic activity in Europe and Japan experienced its highest rate of growth since the late seventies. The volume of gross domestic product rose by 4.1 % in the United Kingdom and 3.6 % in Europe as a whole. Japan's economic performance was outstanding, with a growth rate of 5.7 %.

In Canada, domestic demand remained strong, mainly owing to the pronounced increase in non-residential investment, but net exports placed a significant damper on the economy's impetus, slicing 1.1 % off the growth of GDP. In 1988, real gross domestic product rose by 4.5 % compared to 4 % the preceding year. The rate of growth slowed, however, during the course of the year.

GROSS DOMESTIC PRODUCT IN CONSTANT DOLLARS — CANADA
(annual change)



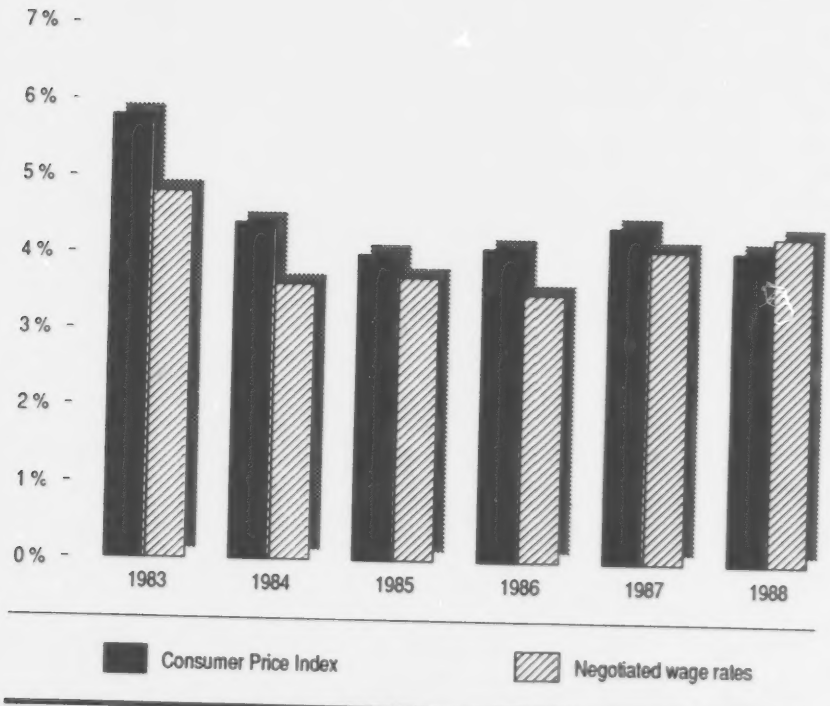
(quarterly change at annual rate)



Source: National Income and Expenditure Accounts, S.C., 13-001.

The favourable economic situation in the major industrialized nations led to a drop in the unemployment rate in those countries and a considerable increase in the rate of capacity utilization. At the same time, inflation once again became the main preoccupation of the central banks. This resulted in a gradual tightening of monetary policy and a general upward trend in interest rates over the course of the year.

CONSUMER PRICES AND WAGE RATES NEGOTIATED UNDER THE MAJOR COLLECTIVE AGREEMENTS — CANADA (annual change)



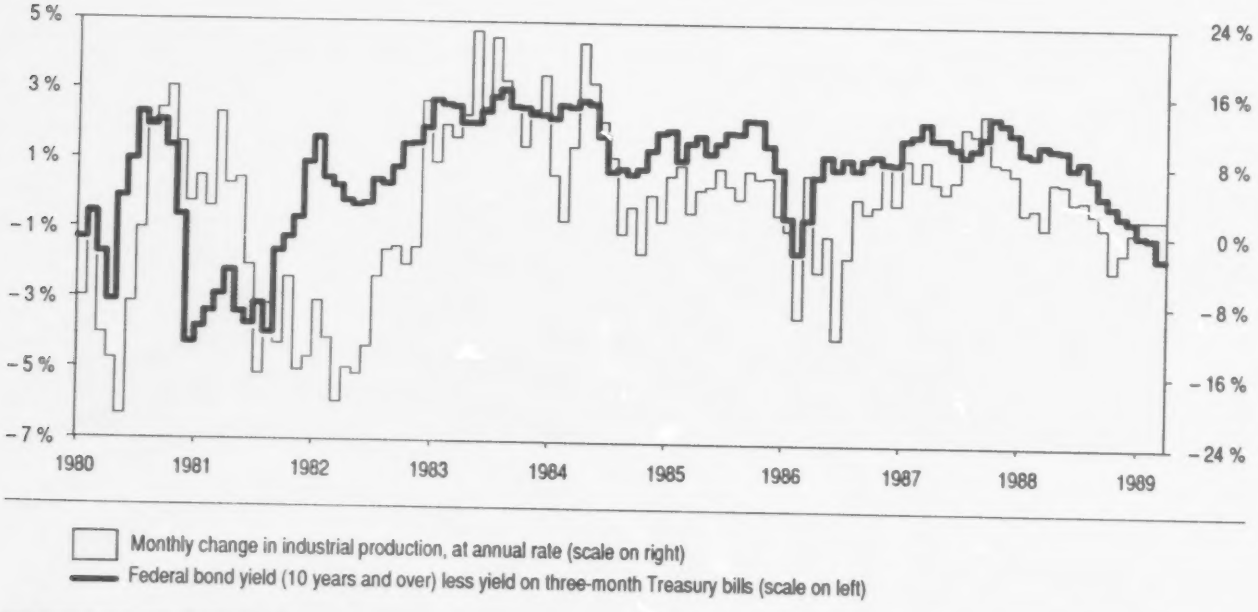
Sources : The Consumer Price Index, S.C., 62-001.
Major Wage Settlements, Labour Canada.

In Canada, the inflation rate as measured by the Consumer Price Index dropped from 4.4 % in 1987 to 4.1 % in 1988, while wages negotiated under the major collective agreements rose by 4.3 % compared to 4.1 % the preceding year. In the country as a whole, inflationary pressures were no greater than in the two preceding years, although they were much more strongly felt in Ontario than elsewhere. Incidentally, Ontario was also the only province to record an unemployment rate significantly lower than the national average in 1988.

In spite of the relative stability of these major indicators of inflationary pressures, the Bank of Canada has continued to apply a far more restrictive monetary policy than the United States since the beginning of 1988. This has resulted in a growing differential between interest rates on 3-month T-bills in Canada and in the United States, from 240 basis points in 1987 to 280 in 1988 and close to 400 in April 1989. Combined with the tight policy adopted in the United States, the Bank of Canada's strategy has proved doubly restrictive.

On the one hand, it has increased short-term interest rates by about 400 basis points in one year, so that the banks' prime rate, for example, is now at its highest level since 1984. The restrictive monetary conditions prevalent in Canada have resulted in the longest and most pronounced inversion of the yield curve since the recession of 1982. Past experience shows that such a phenomenon is the result of a monetary policy sufficiently restrictive to cause a slowdown in economic activity.

YIELD CURVE AND INDUSTRIAL PRODUCTION — CANADA



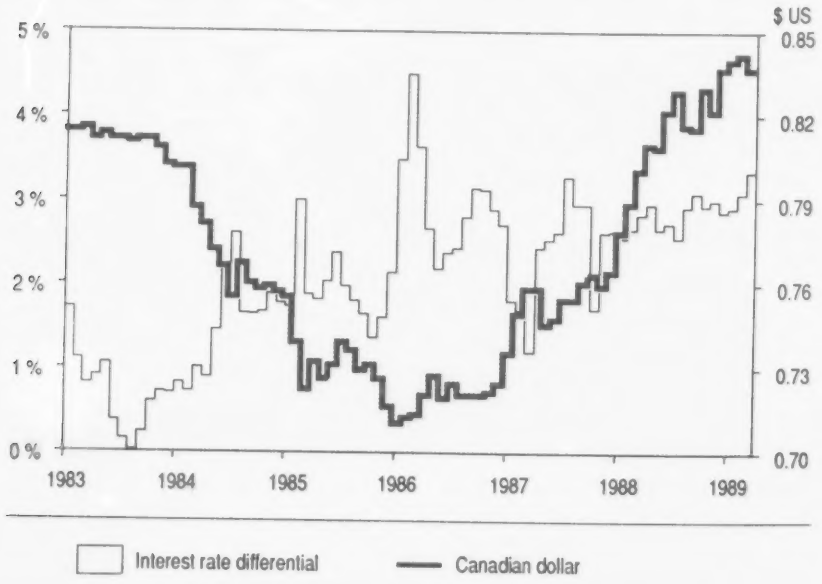
Sources : Bank of Canada.
Gross Domestic Product by Industry, S.C., 15-001.

On the other hand, because the Bank of Canada held short-term interest rates so much higher than in the United States, the Canadian dollar has appreciated by six cents compared to the American dollar since early 1988. As a result of this appreciation, Canadian firms lost ground in relation to foreign competitors, which contributed to a drop in net exports.

YIELD — GOVERNMENT OF CANADA SECURITIES

Source : Bank of Canada.

DIFFERENTIAL BETWEEN INTEREST RATES ON THREE- MONTH TREASURY BILLS (CANADA — UNITED STATES) AND EXCHANGE RATE OF THE CANADIAN DOLLAR

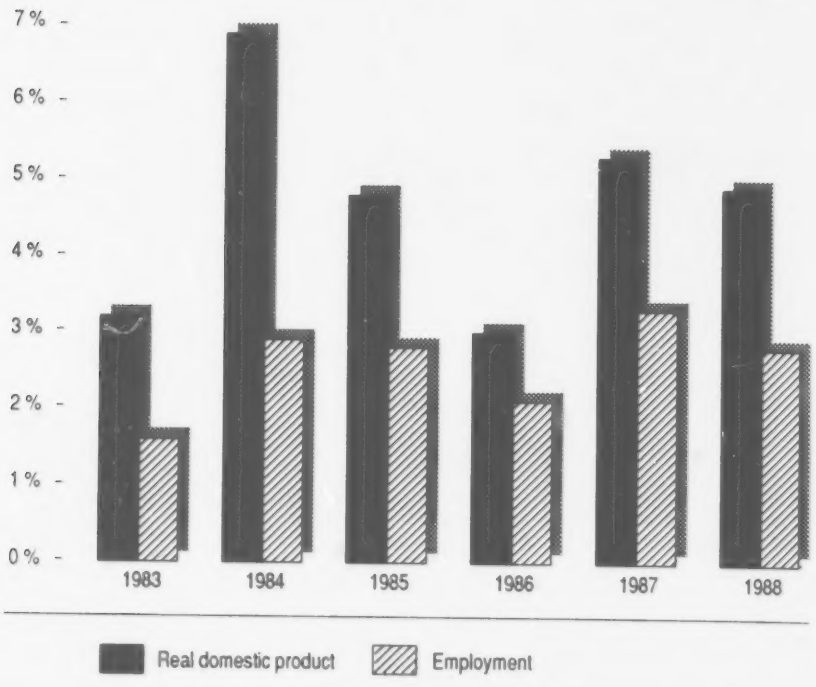


Source : Bank of Canada.

Québec

Once again Québec's economy outstripped that of the country as a whole. Real domestic product climbed 4.9 % in 1988, slightly less than in 1987. The past year was also characterized by a realignment of the forces of the economy. A slackening in consumer demand and a significant drop in the construction of new housing units were offset to a large extent by an upsurge in non-residential investment and international exports loaded in Québec. Construction, manufacturing, communications, trade, and finance and real estate in particular benefited from this situation.

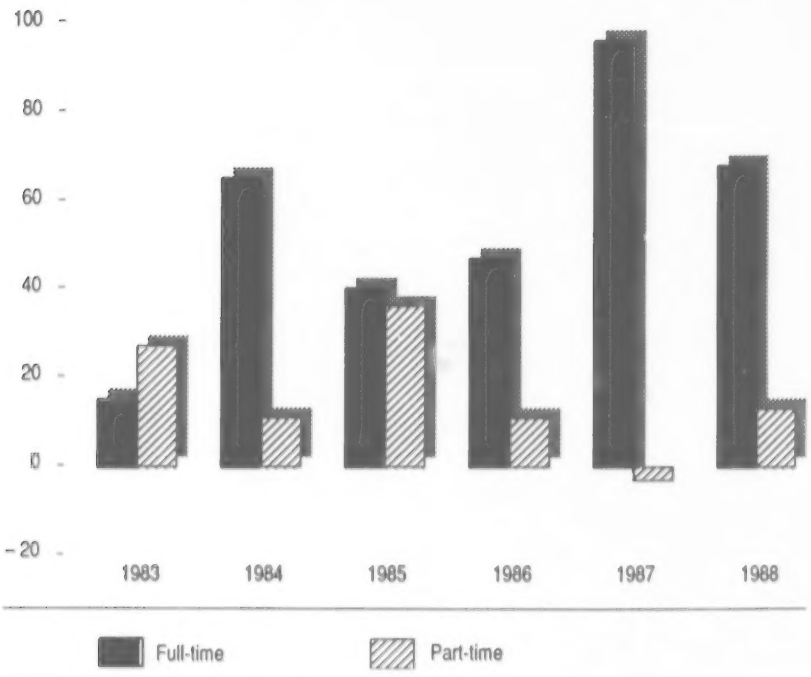
REAL DOMESTIC PRODUCT AND EMPLOYMENT — QUÉBEC
(annual change)



Sources : Conference Board of Canada.
The Labour Force, S.C., 71-001.

Last year, 83 000 new jobs were created, more than 80 % of which were in construction and manufacturing, the two industries that profited the most from the strong economic growth. Indeed, the manufacturing industry recorded an unprecedented increase of 53 000 jobs. As in 1986 and 1987, most (82 %) of the new jobs in 1988 were full-time positions. Thus, despite a 1.8 % growth in the labour force, the unemployment rate continued to fall, settling at 9.4 %, the lowest level since 1976.

CREATION OF FULL-TIME AND PART-TIME JOBS
(in thousands)



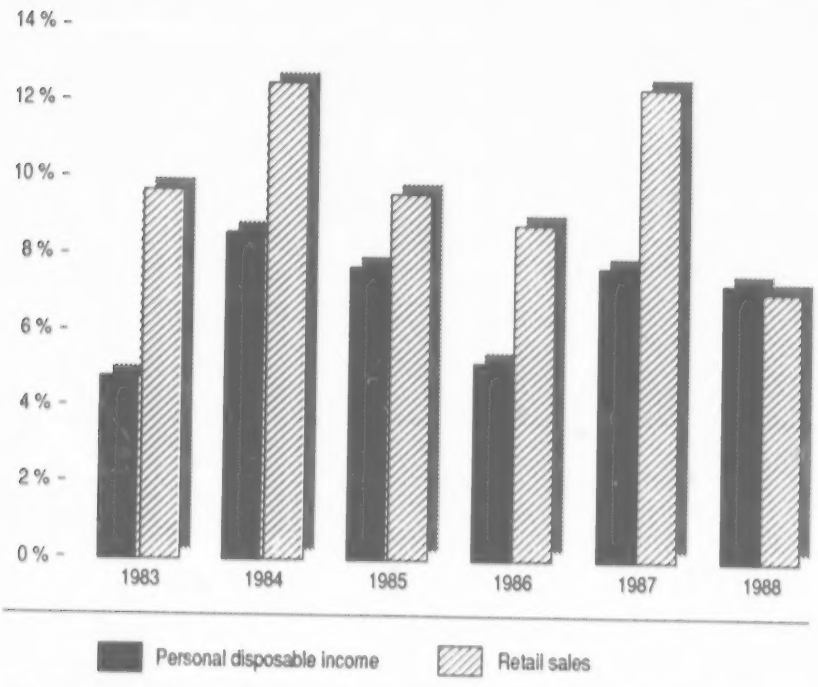
Source : The Labour Force S.C., 71-001.

Household income and spending

Household confidence dropped immediately following the stock market crisis, but regained strength in the first half of the year. Although private consumption fell off temporarily at the beginning of the year, it recovered later on. For the sixth year in a row, consumers cut back on their rate of savings to increase their purchases of goods and services. However, because of the growing indebtedness of most households, and the rise in interest rates, growth in personal spending was not quite as vigorous as in the preceding year.

This slowdown was reflected in retail sales which rose by 7.1 % in 1988 compared to 12.4 % the previous year. For most businesses, particularly furniture and appliance stores, whose sales moved up by only 1.5 % last year compared to 16.6 % the preceding year, sales increased more slowly than in 1987. This weakness is hardly surprising given the slowdown in residential construction. Automobile dealers also experienced a significant falloff in sales. The rate of growth was cut in half, from 18.5 % in 1987 to 9.2 % in 1988. Retailers in the food, clothing and footwear sectors as well recorded smaller than average increases.

PERSONAL DISPOSABLE INCOME AND RETAIL SALES — QUÉBEC (annual change)



Sources : Ministère des Finances du Québec.
Provincial Economic Accounts, S.C., 13-213.
Retail Trade, S.C., 63-005.

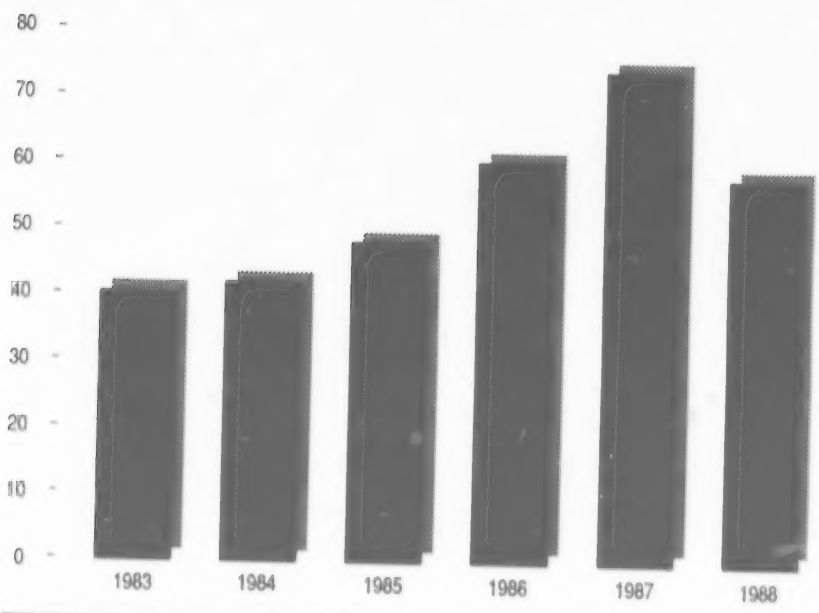
Gross fixed capital investment

In 1988, private and public investment grew by 11.4 %, for a total of close to $ 28 000 000 000. The overall investment rate thus amounted to 19.3 % of gross domestic product, the highest percentage in over ten years.

— *Residential construction*

After several years of intense activity, the construction of new housing units declined from 74 179 in 1987 to 58 062 in 1988, a figure that is nevertheless higher than the historical average. Although this fallback affected all types of housing, it was most pronounced in the construction of apartment buildings where the high level of activity in preceding years resulted in a considerable increase in vacancy rates in rental property in most regions of Québec.

HOUSING STARTS — QUÉBEC
(in thousands of units)



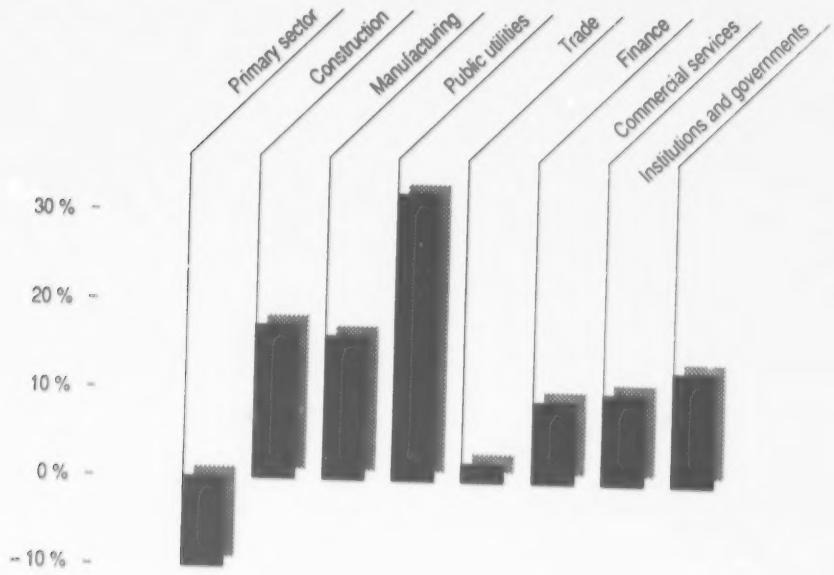
Source : Canada Mortgage and Housing Corporation.

— *Non-residential investment*

With a 15 % growth rate in non-residential investment, in 1988, Québec outstripped Canada as a whole in this area for the fifth consecutive year. Purchases of machinery rose by 10.3 %, while non-residential construction grew at twice that rate, 20.7 %. Three important areas of activity grew at rates higher than the average: manufacturing (16.2 %), transportation (43.9 %) and public utilities other than transportation and communications, which grew by 40.9 % thanks to Hydro-Québec's capital expenditures.

The past two years, characterized by considerable increases in profits and greater use of production capacities in many industries, were particularly favourable to increased investment in manufacturing. A number of sectors pushed their level of capital expenditure up sharply, particularly the machinery (100.9 %), transportation equipment (72.4 %), primary metals (43 %), wood (78.8 %), food (37.3 %) and electric appliances (22.3 %) sectors.

NON-RESIDENTIAL INVESTMENT BY INDUSTRY
QUÉBEC — 1988
(annual change)



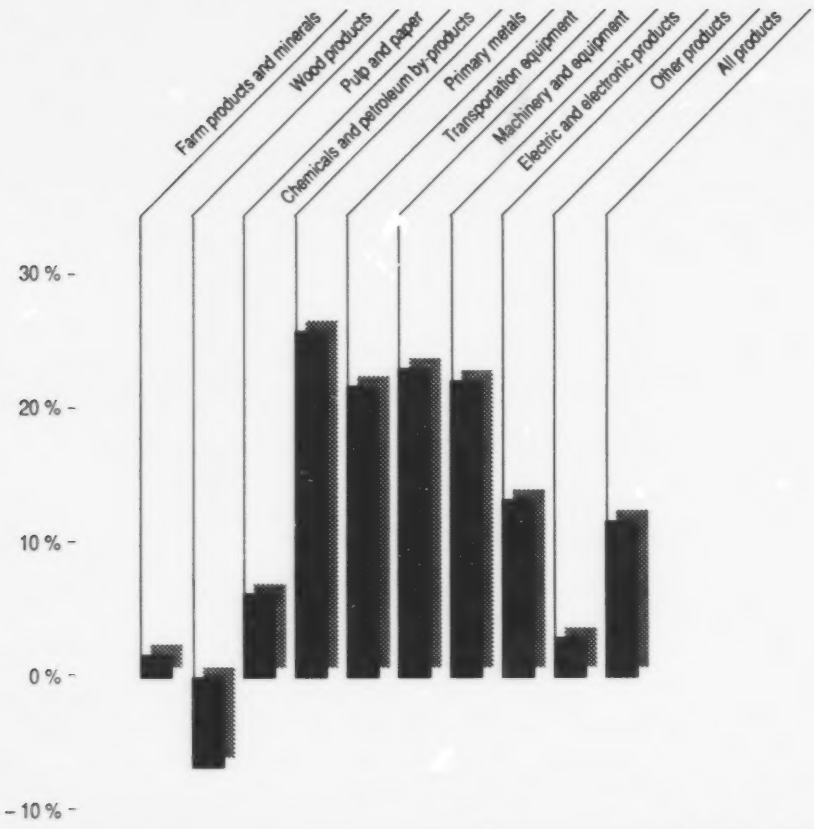
Source : Private and Public Investment in Canada, S.C., 61-205.

International exports

The growth of international exports loaded in Québec rose sharply, from 1.5 % in 1987 to 11.7 % in 1988. This increased rate of growth is due mainly to the excellent performance of transportation equipment (23.1 %), machinery and equipment (22.2 %), chemicals (34 %), primary processing of metals (21.8 %) and electric and electronic products (13.3 %).

The vigorous recovery of the transportation equipment sector reflects the return to normal of operations at the General Motors plant at Boisbriand, which were temporarily interrupted in 1987. The 72.9 % jump in exports of road vehicles and parts more than compensated for the decline in shipments of railway rolling stock resulting from the completion of deliveries by Bombardier of subway cars for New York in 1987. The growth in exports of primary metals is largely the result of the increased value of aluminum deliveries. The 22.2 % rise in machinery and equipment exports must be attributed to the vigorous investment demand of our principal trading partners.

INTERNATIONAL EXPORTS LOADED IN QUÉBEC — 1988
(annual change)



Sources : Ministère des Finances du Québec.
Bureau de la statistique du Québec.

Outlook for 1989

The economic outlook for the coming year in Canada and Québec has become bleaker in recent months. Even before the federal budget was tabled last April, the considerable tightening of monetary policy over the past few quarters had greatly heightened uncertainty as to future economic activity. It was already expected that the growth slowdown recorded in 1988 would become more pronounced in 1989, owing to the impact of higher interest rates on consumers and corporations and to the growing erosion of business competitiveness in the wake of the increase in the value of the Canadian dollar, at a time when domestic demand in the United States, our main foreign market, had begun to taper off. The recent federal budget will intensify the anticipated slowdown in demand in Québec and throughout the rest of the country, mainly on account of the hefty increases in indirect and income taxes that will particularly affect consumers this year and next year. After two years of strong economic growth, Québec's output will increase less rapidly in 1989, i.e. by 2.8 %. Moreover, an additional slowdown in activity can be expected in 1990, when the growth rate of production will probably fall to below 2 %.

The External environment

According to the OECD, the international economic context seems conducive to continued growth in the major industrialized countries in 1989. However, the tightening of monetary policy observed at the international level should curb the growth rate of demand and output. Nevertheless, the gradual correction of trade imbalances begun in 1987 will continue and thereby help to sustain economic activity in the United States while slowing it down in other large countries. Because of higher interest rates, slower growth in corporate profits, and the increase in the capital-output ratio registered over the past two years, it will be impossible to sustain the very rapid growth recorded last year in non-residential investment. Overall, economic growth will be around 2.5 % in Europe and the United States, and 4.5 % in Japan. With regard to inflation, all industrialized countries should experience a slight acceleration in consumer prices, with increases remaining above average in North America and the United Kingdom, and very slight in Japan.

The growth rate of production in Canada is expected to decline, from 4.5 % last year to 2.6 % this year and 1.7 % in 1990. The foreign sector will continue to put a brake on expansion. The combined effect of more limited domestic demand in the United States and the strengthening of the Canadian dollar over the past two years will further reduce Canada's net exports and help keep the current account deficit high. In addition, owing to rising interest rates, a high rate of indebtedness, and the increases in income tax and other taxes announced in the federal budget in April, households have been left with almost no financial leeway to reduce their rate of savings in order to finance purchases of goods and services. Business non-residential investment will be the main source of continued growth for 1989.

With regard to inflation, the indirect tax increases stemming from the federal budget, combined with the rise in the price of crude oil and the effect of last year's drought on food prices, will push the consumer price growth rate up to 4.9 % in 1989.

Québec

Production growth will also decline in Québec, settling at 2.8 % in 1989, while the economy will feel the effects of the restrictive economic policies of the federal government and the Bank of Canada.

The greater purchasing power of households, resulting from the fiscal measures announced last year, will be partially offset by the increases in income tax and indirect taxes announced by the federal government in April. This situation will be aggravated by the heavier burden which households will have to bear on account of higher interest rates. Consequently, consumer spending will increase more slowly than last year, limiting the growth of retail sales to 5.1 %. This evolution will mainly affect the purchase of durable goods, in particular automobiles; already dealers are making increasing use of promotion measures to sell their stock.

In the residential sector, the decrease in the number of housing starts last year will be followed by an additional reduction in 1989. In all, 44 000 units will be constructed. In addition to the higher interest rates that will apply to the industry as a whole, the rental housing sector will be subject to an additional adjustment to remedy existing high vacancy rates. This change will make it possible, however, to strike a better balance between supply and demand in Québec's housing sector.

Non-residential investment will continue to grow very rapidly this year, despite the constraints imposed by interest rates, the falloff in demand, the latest federal tax drains, and the lower rates of use of production capacity observed recently in certain industries. According to the survey on investment intentions carried out by Statistics Canada at the beginning of the year, non-residential capital expenditures should increase by 15.2 % in 1989, slightly more than in 1988.

Both the private and public sectors will provide the driving force behind anticipated growth. The 14.8 % increase expected in the private sector can largely be attributed to manufacturing (27.3 %), which will benefit from the combined effects of the vitality of firms, especially in the pulp and paper, chemicals, oil by-products and electrical products sectors, and Québec government policies aimed at promoting the development of the aluminum industry. Real estate construction will remain strong and help to increase investment in commercial services by 12.9 %. Capital expenditures in the communications sector will grow at a rate of 26 %. Hydro-Québec's capital expenditures will be primarily responsible for the 16 % increase anticipated in the public sector.

The expansion of the Québec economy will lead to the creation of 64 000 jobs and the unemployment rate will fall to 9.1 %. Although the manufacturing industry continued to benefit the most from the growth in employment during the first quarter of 1988, the service sector should gradually obtain a larger share of new jobs. Moreover, it is anticipated that most new jobs will be full-time positions in 1989.

SUMMARY OF SHORT-TERM OUTLOOK — QUÉBEC

	1988 %	1989 %
OUTPUT		
☐ Gross domestic product	9.4	7.6
☐ Real domestic product	4.9	2.8
COMPONENTS OF DEMAND		
☐ Non-residential investment	15.0	15.2
☐ Housing starts[1]	58.1	44.0
☐ Retail sales	7.1	5.1
COMPONENTS OF INCOME		
☐ Wages and salaries	8.4	7.2
☐ Personal income	8.4	7.8
☐ Corporate profits	12.9	4.6
LABOUR MARKET		
☐ Labour force	1.8	1.8
☐ Employment	2.8	2.1
☐ Unemployment rate	9.4	9.1

1 Thousands.

Medium-term economic outlook for 1990 to 1992

Given the high degree of integration of the Québec economy into that of the rest of North America, the medium-term economic outlook will be contingent not only on the vitality of Québec households and businesses but also, to a large extent, on the conditions that will prevail among our principal trading partners and on the economic policies in effect in the United States and Canada. The realization of economic projections over such a long period, i.e. between now and 1992, is therefore dependent on a number of hypotheses chosen from a wide range of possibilities. Such projections must therefore not be interpreted as forecasts. Rather, they constitute an instrument for analysis which gives a coherent picture of the main economic trends that are compatible with the hypotheses selected.

Main assumptions underlying the projection

In general, the economic environment in which Québec will develop from now until 1992 is more restrictive than that which prevailed in previous years. Some of the principal hypotheses which should limit the growth of the Québec economy are as follows :

- ☐ In North America, real interest rates will remain high in comparison to post-war averages ;
- ☐ Current macroeconomic imbalances will gradually be corrected without giving rise to a recession ; in the United States, the average annual rate of economic expansion will, however, amount to no more than around 2.5 % ;
- ☐ The measures announced in the federal budget on April 27, 1989 will have a limiting effect on production and demand in Canada until 1992 ;
- ☐ The exchange rate on the Canadian dollar will continue to exceed US $ .80 for the period up to 1992 ;
- ☐ Growth in the Canadian economy should average around 2.7 % and be accompanied by an inflation rate of 4.6 % per year.

Outlook for the Québec economy for 1990 to 1992

On the basis of these hypotheses, it is estimated that macroeconomic conditions in the United States and Canada as a whole will limit the growth of Québec's economy to an average annual rate of 2.7 % between 1990 and 1992.

At the domestic level, the expansion of the Québec economy will primarily depend on the vitality of non-residential investment and on increased penetration of foreign markets, while household demand and residential construction should undergo more moderate growth than in recent years.

SUMMARY OF MEDIUM-TERM OUTLOOK — QUÉBEC

	1978-1987 %	1990-1992 %
OUTPUT		
☐ Gross domestic product	9.7	7.1
☐ Real domestic product	2.5	2.7
COMPONENTS OF DEMAND		
☐ Non-residential investment	7.1	7.2
☐ Housing starts [1]	43.3	45.8
☐ Retail sales	9.6	6.7
COMPONENTS OF INCOME		
☐ Wages and salaries	8.4	6.5
☐ Personal income	9.7	6.9
☐ Corporate profits	14.2	8.5
LABOUR MARKET		
☐ Labour force	1.7	1.8
☐ Employment	1.7	1.8
☐ Unemployment rate	11.4	9.1

1 Thousands.

Household expenditures will fuel the growth to a lesser extent than they have since the beginning of the recovery. Although the decline in the rate of savings has been responsible for around 50 % of the growth in personal expenditures over the past six years, this trend cannot continue in the medium term since the savings rate has already reached its trough. From now until 1992, consumption will be more closely tied to the disposable income of households.

After having increased at a higher rate than the formation of households over the past few years, residential construction will stablilize at a level that is more compatible with the long-term needs of Quebecers. However, a substantial improvement in the province's net immigration will sustain activity in this sector. Housing starts will average 46 000 units per year.

There has been a tremendous growth in non-residential investment over the past few years. In the face of growing competition at the international level, Québec businesses will have to continue to modernize in the medium term. The changes made in Québec's taxation system in the past few years should encourage private investment to respond to these new challenges. Between 1990 and 1992, the possibilities made available by hydroelectricity will result in investments of over $ 4 000 000 000 in aluminum. In addition, the upturn in Hydro-Québec's investments will significantly contribute to the good performance anticipated for non-residential investment over the next few years.

Sustained economic growth will be accompanied by the expansion of foreign markets which will continue to offer a major outlet for Québec products. In the wake of increased production capacity and the modernization of equipment related to the strong growth in investment in many sectors, Québec business firms will occupy an advantageous position as trade barriers are gradually removed between Canada and the United States.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1984	1985	1986	1987	1988[1]	84-83 %	85-84 %	86-85 %	87-86 %	88-87 %	88-84[2] %
Gross domestic product	$ 000 000	100 991	108 562	119 166	131 822	144 155	9.4	7.5	9.8	10.6	9.4	9.3
Real domestic product	$ 000 000 81	75 231	78 805	81 196	85 476	89 648	6.9	4.8	3.0	5.3	4.9	4.5
Per capita real domestic product	$ 81	11 588	12 098	12 415	12 965	13 505	6.6	4.4	2.6	4.4	4.2	3.9
Personal income	$ 000 000	91 186	98 471	104 929	113 743	123 306	8.6	8.0	6.6	8.4	8.4	7.8
Per capita personal income	$	14 046	15 116	16 044	17 253	18 576	8.3	7.6	6.1	7.5	7.7	7.2
Total capital expenditures	$ 000 000	15 748	19 240	21 030	24 941	27 784	12.9	22.2	9.3	18.6	11.4	15.3
– manufacturing sector	$ 000 000	2 751	3 395	3 714	3 997	4 646	31.8	23.4	9.4	7.6	16.2	14.0
Value of shipments – manufacturing industries	$ 000 000	57 089	60 541	62 422	68 110	72 789	9.6	6.0	3.1	9.1	6.9	6.3
Retail sales	$ 000 000	29 006	31 782	34 593	38 866	41 615	12.5	9.6	8.8	12.4	7.1	9.4
Consumer Price Index	1981 = 100	122.5	127.8	133.9	139.8	145.0	4.1	4.3	4.8	4.4	3.7	4.3
Population (June 1)	000	6 492	6 514	6 540	6 593	6 638	0.3	0.3	0.4	0.8	0.7	0.6
Labour force	000	3 088	3 140	3 174	3 253	3 311	1.6	1.7	1.1	2.5	1.8	1.8
Employment	000	2 692	2 768	2 825	2 918	3 001	2.9	2.8	2.1	3.3	2.8	2.8
Unemployment	%	12.8	11.8	11.0	10.3	9.4	—	—	—	—	—	—

1 Preliminary data for 1988.

2 1984-1988 annual compound rate.

Sources : Provincial Economic Accounts, S.C., 13-213, Conference Board of Canada, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1984	1985	1986	1987	1988[1]	84-83 %	85-84 %	86-85 %	87-86 %	88-87 %	88-84[2] %
Gross domestic product	$ 000 000	444 735	478 765	506 483	549 692	598 732	9.6	7.7	5.8	8.5	8.9	7.7
Real domestic product	$ 000 000 81	336 941	353 254	364 541	379 244	395 826	6.0	4.8	3.2	4.0	4.4	4.1
Per capita real domestic product	$ 81	13 489	14 037	14 379	14 804	15 275	5.2	4.1	2.4	3.0	3.2	3.2
Personal income	$ 000 000	372 239	402 325	429 139	463 272	500 314	8.5	8.1	6.7	8.0	8.0	7.7
Per capita personal income	$	14 903	15 987	16 927	18 084	19 308	7.7	7.3	5.9	6.8	6.8	6.7
Total capital expenditures	$ 000 000	75 378	90 504	97 086	109 162	123 164	2.5	20.1	7.3	12.4	12.8	13.1
– manufacturing sector	$ 000 000	8 887	11 516	14 249	15 332	17 616	0.3	29.6	23.7	7.6	14.9	18.7
Value of shipments – manufacturing industries	$ 000 000	229 848	248 415	253 911	269 865	288 467	13.2	8.1	2.2	6.3	6.9	5.8
Retail sales	$ 000 000	116 080	129 446	140 009	153 732	165 190	9.3	11.5	8.2	9.8	7.5	9.2
Consumer Price Index	1981 = 100	122.3	127.2	132.4	138.2	143.8	4.4	4.0	4.1	4.4	4.1	4.1
Population (June 1)	000	24 978	25 165	25 353	25 617	25 913	0.8	0.7	0.7	1.0	1.2	0.9
Labour force	000	12 316	12 532	12 746	13 011	13 275	1.7	1.8	1.7	2.1	2.0	1.9
Employment	000	10 932	11 221	11 531	11 861	12 244	2.4	2.6	2.8	2.9	3.2	2.9
Unemployment	%	11.2	10.5	9.5	8.8	7.8	—	—	—	—	—	—

1 Preliminary data for 1988.

2 1984-1988 annual compound rate.

Sources : National Income and Expenditure Accounts, S.C., 13-001, Gross Domestic Product by Industry, S.C., 61-005, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.

APPENDIX E

Government Strategy for Supporting Research and Development by the Private Sector

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Introduction

Given the current economic context, business firms must invest in research and development (R & D) in order to remain competitive. By engaging in R & D, firms enhance the quality of their products, reduce costs, and boost productivity, thereby increasing their sales and profitability. R & D is therefore essential to the sustained growth of the Québec economy and will allow us to rise to the challenges of the 1990s.

Aware of the stakes involved, Québec has been pursuing, over the past few years, a veritable R & D strategy aimed at stimulating industrial research, promoting collaboration between the private sector and universities, and facilitating the raising of venture capital to finance these activities.

This strategy comprises five integrated modes of intervention :

- ☐ the tax system, which constitutes the basis of the scheme ;
- ☐ the technological development fund (TDF), which supplements the tax system in the framework of catalyst projects ;
- ☐ Hydro-Québec's farming-out policy ;
- ☐ the risk-sharing loan programs of the Agence québécoise de valorisation industrielle de la recherche (AQVIR) and the Société de développement industriel du Québec (SDI) ; and
- ☐ the other R & D spending programs of various government departments and agencies.

Québec devotes substantial sums to each of the above, thereby creating one of the most favourable environments for R & D activities in North America. It also fosters conditions conducive to the establishment of high-technology firms in Québec.

The purpose of this appendix is to clearly present the government's objectives and strategy with regard to R & D.

An integrated research and development strategy

Tax system

For the following reasons, the tax system is one of the main components of the government's R & D strategy :

- ☐ business firms generally prefer to receive tax concessions rather than subsidies for reasons of simplicity and confidentiality ;
- ☐ the tax system minimizes the steps which must be taken to obtain government assistance, and thereby reduces delays ; and
- ☐ tax credits cut down on administrative costs and thereby allow firms to receive more assistance, for every public dollar invested in R & D, than they do when they receive subsidies under programs.

With this approach, the tax system acts as a spur, enhancing the vitality of the private sector, which is able to choose from the best R & D projects. In this way, the government minimizes its role in the decision-making process in the private sector, while supporting entrepreneurial efforts and creating a climate conducive to economic development. This approach is also in keeping with a long-term strategy aimed at keeping the tax system competitive in order to promote economic development, by reducing the net cost of investment in Québec, particularly that related to R & D.

Since 1986, the government has implemented a series of fiscal measures [1] that are unique in Canada. Among other things, they are intended to :

- ☐ stimulate industrial research by granting a refundable tax credit of 20 % on wages for R & D projects carried out by large businesses ; this credit is increased to 40 % in the case of small and medium-sized firms ;
- ☐ facilitate the hiring of highly qualified foreign researchers, if similarly qualified persons are not available in Québec, by granting them a tax holiday on their salaries for a maximum of 24 months' work for a firm in the private sector conducting research in Québec;
- ☐ establish collaboration between universities and business firms by granting a refundable tax credit of 40 % on all R & D spending in universities ;
- ☐ promote the creation of business combinations through the pooling of the financial and human resources needed to carry out pre-competitive and catalyst projects, by granting a refundable tax credit of 40 % on all R & D spending ;
- ☐ increase the working capital of firms by allowing them to reduce their monthly instalment payments for income tax and tax on capital by a sum equal to the R & D tax credit, and by financing a large portion of the value of the Québec and federal tax credits with a loan guarantee offered by the SDI through financial institutions ; and

1 A detailed description is given in the section entitled "Fiscal measures for research and development".

- ☐ facilitate the raising of venture capital by granting investors additional deductions for financing carried out through Québec Business Investment Companies (QBICS), the Québec Stock Savings Plan (QSSP) and R & D venture capital companies, when the firm in question waives its R & D tax credits.

Technological development fund

Direct subsidies are effective in promoting the implementation of large-scale projects ; they also supplement fiscal measures. For this purpose, the government announced the creation of a technological development fund at the Sommet québécois sur la technologie. This fund has been allocated $ 300 000 000 for five fiscal years beginning in 1989-1990.

The activities of the technological development fund (TDF) will supplement fiscal measures. Its resources will mainly be devoted to fostering and supporting catalyst projects that are recognized as such by the government. These projects, which last from two to five years, bring firms and researchers together within the framework of large-scale technological projects launched by industrial partners which manage them and set their principal objectives.

A 40 % refundable tax credit is applicable to all R & D expenditures incurred in catalyst projects. In this way, R & D spending with regard to such projects receives the same tax treatment as pre-competitive research and research conducted in universities.

In addition, the upstream and downstream expenditures of catalyst projects as well as expenditures that do not qualify for Québec's 40 % tax credit are eligible for subsidies. In this way, the assistance granted by the technological development fund extends government support to all the expenditures incurred in large-scale catalyst projects. For example, these expenditures are related to the pooling of efforts, to designing and building laboratories and to costs incurred prior to final marketing. Subsidies will cover up to 50 % of these eligible expenditures.

The TDF can also subsidize R & D expenditures that are eligible for tax purposes, insofar as the cost of the subsidy is shared equally with the federal government.

Hydro-Québec's farming-out policy

Private sector R & D activities will also be promoted by involving this sector in projects carried out in the public sector. Part of the R & D activities of the private sector over the next few years will stem from Hydro-Québec's R & D expenditures. These expenditures will amount to $ 830 000 000 for the period 1989 to 1993.

Hydro-Québec will allocate directly to the private sector, under its farming-out policy, 60 % of its R & D expenditures, or $ 495 000 000, over the 1989 to 1993 period.

Hydro-Québec's activities with regard to the acquisition of goods and services related to R & D are aimed at consolidating Québec's technological infrastructure, by enhancing results as much as possible and maximizing the technological spinoffs. Its efforts in this field are aimed mainly at increasing collaboration through the joint financing or performance of work.

Risk-sharing loan programs

The Québec government also supports the R & D activities of small and medium-sized businesses through risk-sharing loans granted by AQVIR and SDI. These loans include a premium which may take the form of charges on sales, a stock option or increased interest.

Generally, AQVIR receives applications from firms which have been operating commercially for less than three years, or which do not have the technical or commercial expertise to carry out a project. The SDI's efforts are geared primarily towards firms that are past the start-up phase.

Agence québécoise de valorisation industrielle de la recherche

AQVIR has a mandate to promote technological innovation and help develop industrial or commercial applications which are likely to have economic spinoffs in Québec. It also encourages cooperation between the research community and industry.

The financial assistance awarded by AQVIR covers all the stages of the innovation process prior to the organization of production and marketing. Moreover, AQVIR concentrates on innovative projects, that is, projects that lead to the marketing of a new product or to a new manufacturing process.

AQVIR usually grants risk-sharing loans, a form of assistance that is well adapted to the needs of promoters. It also provides assistance in the form of venture capital.

Société de développement industriel du Québec

Like AQVIR, SDI awards risk-sharing loans under its programme d'Aide de recherche et d'innovation du Québec (PARIQ), and thereby shares the financial risks inherent in the technical development projects of small and medium-sized businesses. Loans may cover up to 50 % of the eligible expenditures for each project. Its program also includes a three-year moratorium on the payment of capital and interest. In some cases, SDI also grants an interest holiday for a limited period.

Eligible expenditures include those incurred at all stages of the innovation process including marketing costs.

Other research and development programs of government departments and agencies

Under its budgetary expenditure programs, the government also allocates large sums to promote R & D activities in Québec. This direct contribution takes several forms :

- ☐ the value of the R & D carried out by the various departments ;
- ☐ the value of the R & D carried out by government research agencies, such as the Centre de recherche industrielle du Québec (CRIQ) ;
- ☐ direct subsidies awarded to firms under departmental research assistance programs ;
- ☐ the government's contribution to financing the R & D activities carried out by universities, in particular the Fonds pour la formation de chercheurs et l'aide à la recherche (FCAR) and the Fonds de la recherche en santé du Québec (FRSQ) ; and
- ☐ financing of private non-profit research agencies.

In addition to its direct financial contribution, the government participates indirectly in R & D through various government departments and agencies that act as advisors and information agents for businesses in the private sector.

Substantial contribution by the gouvernement du Québec

The Québec government's financial contribution to R & D activities is appreciable. Total assistance should amount to nearly $ 3 000 000 000 for fiscal 1989-1990 to fiscal 1993-1994. Of this amount, approximately $ 1 800 000 000 will be attributable to fiscal measures,[1] the technological development fund, Hydro-Québec's farming-out policy, and the risk-sharing loan programs of AQVIR and SDI. Over the same period, more than $ 1 100 000 000 will be injected into the other research and development expenditure programs of government departments and agencies.

CONTRIBUTION OF THE GOUVERNEMENT DU QUÉBEC TO R & D (in millions of dollars)

	Five years 1989-1990 to 1993-1994
Fiscal measures	
☐ Tax initiatives before the 1989-1990 Budget Speech	790
☐ New tax initiatives in the 1989-1990 Budget Speech	120
☐ Total fiscal measures	910
Technological development fund	300
Hydro-Québec's farming-out policy	495
AQVIR and SDI risk-sharing loan programs[1]	120
Subtotal	1 825
Other R & D expenditure programs of government departments and agencies	1 150
Total assistance	**2 975**

1 The value of risk-sharing loans made to businesses.

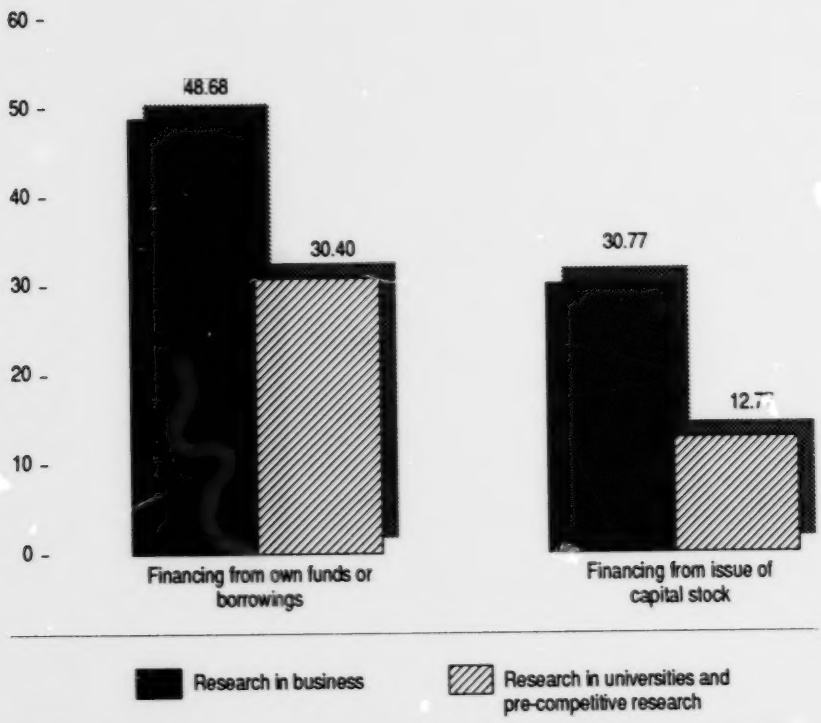
1 The cost of tax measures related to R & D activities has been estimated using an extrapolation of the preliminary fiscal data of the ministère du Revenu du Québec for 1987 and Statistics Canada's data on R & D expenditure in Québec.

Major support for business initiatives

Québec's fiscal measures pertaining to R & D provide business firms with considerable financial support. They make it possible to reduce the net cost of an R & D expenditure by lessening the risks inherent in such activities.

For example, the net cost of a $ 100 R & D expenditure to a large, taxable manufacturing company which finances its own research will be $ 48.68 when the research is conducted in business and $ 30.40 when it is conducted in a university or as pre-competitive research. When a company finances its project by issuing capital stock under the Stock Savings Plan, the net cost to the private sector, that is, to the firm and investors, will be $ 30.77 or $ 12.77, depending on whether the research is done in the firm or not. The detailed net costs table appears in schedules B.1 and B.2 and illustrates the situation in other businesses.

NET COST [1] TO THE PRIVATE SECTOR OF A $ 100 R & D EXPENDITURE [2]
UNDER VARIOUS FINANCING METHODS
MAJOR MANUFACTURING BUSINESS
(in dollars)



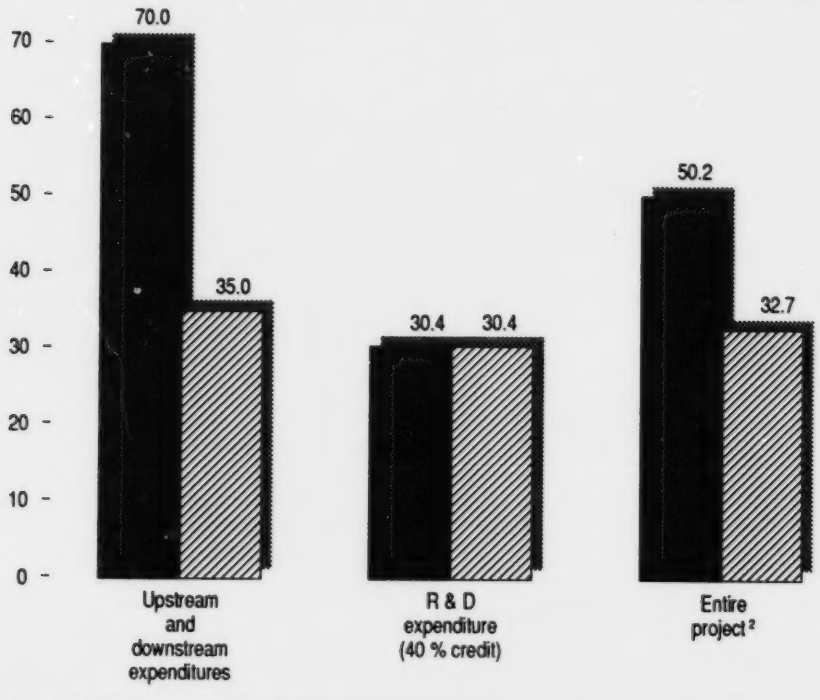
1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

2 Total expenditure is divided as follows : $ 50 for wages and $ 50 for other expenditures.

The Québec government offers even more substantial support to companies which participate in catalyst projects. In addition to enjoying the refundable tax credit of 40 % on all R & D expenditures, such companies will receive a subsidy of up to 50 % for upstream and downstream expenditures and R & D expenditures not covered by the tax credit.

For example, a large manufacturing company will have a net cost equal to 35 % or 70 % of a downstream or upstream R & D expenditure, depending on whether it is eligible for a TDF subsidy for such expenditures. In addition, the company will shoulder a net cost equal to 30.4 % of an R & D expenditure, if the expenditure is eligible for Québec's 40 % tax credit. Consequently, the net cost to the company for a catalyst project whose expenditures are divided equally between upstream and downstream activities, on the one hand, and R & D activities, on the other, will amount to 32.7 % of total expenditures when the project is eligible for a TDF subsidy and 50.2 % when it is not. The detailed net costs table is given in Schedule B.3 and illustrates the situation in other businesses.

NET COST[1] TO A FIRM OF A CATALYST PROJECT
MAJOR MANUFACTURING BUSINESS
(in percentage of expenditure)



1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.
2 Total expenditure is equally divided between upstream and downstream expenditures and R & D expenditures.

A competitive tax system in the area of research and development

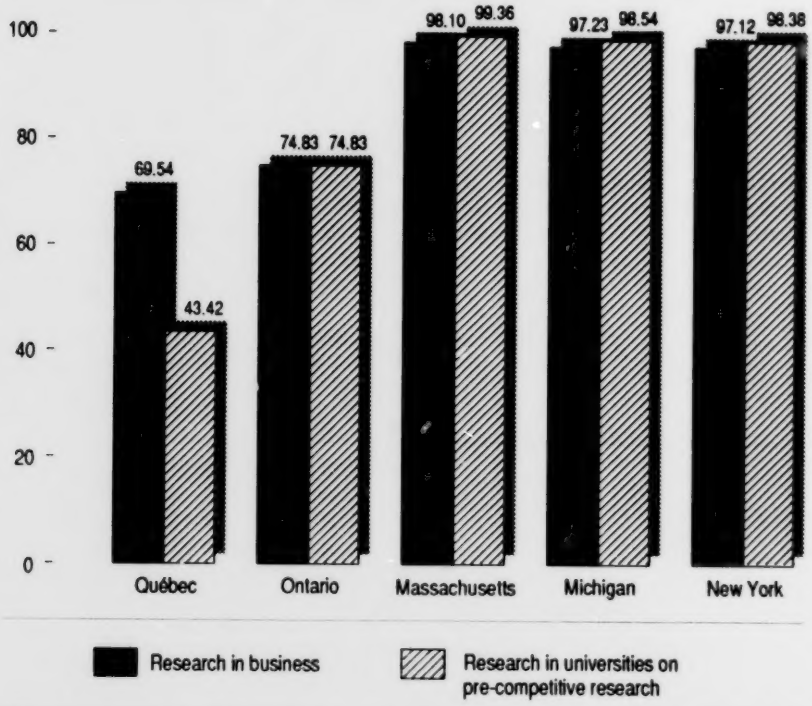
Although the various measures implemented by the government provide businesses with considerable financial support, it is important to determine how Québec compares with certain neighbouring regions such as Ontario and the states of Massachusetts, Michigan and New York. It is difficult to compare the subsidy, risk-sharing loan, and other programs in effect in the five regions. Fiscal measures are more readily comparable since they apply to all firms, contrary to subsidies which are awarded in a selective manner to a limited number of businesses.

To ensure that the comparison of the fiscal measures of the five regions is valid, we must use an indicator that takes into account the effect of the tax system on both costs and revenue, something which cannot be done using net cost as an indicator. While a higher tax rate on income lowers the net cost of an R & D expenditure, it also reduces the after-tax revenue generated by such activities.

Therefore, to better illustrate the competitiveness of Québec's tax system in the realm of R & D, the concept of the break-even point must be used rather than that of net cost. This is the only valid method for comparing the largesse of fiscal measures in the different jurisdictions.

The break-even point is defined as the present value of income before taxes needed to recover the net cost of such an expenditure in a research project. The lower the break-even point, the more the tax system in a given jurisdiction is considered to be competitive. The following graph compares the break-even point for a $ 100 R & D expenditure incurred by a large manufacturing company in each of the five regions.

COMPARISON OF THE BREAK-EVEN POINTS [1] FOR A $ 100 R & D EXPENDITURE [2] UNDER VARIOUS JURISDICTIONS MAJOR MANUFACTURING BUSINESS (in dollars)



1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

2 Breakdown of total expenditures : 50 % in wages, 40 % in other current expenses and 10 % in capital expenditures for equipment. Also, the business increases its R & D expenditures by 12 % annually, which corresponds to a 25 % increase over the average R & D expenditures for the three previous years.

The results show that the Québec tax system is competitive when the research is conducted in business. Moreover, it is much more advantageous for pre-competitive research or research carried out in university. For example, the break-even point in Québec is $ 43.42 for pre-competitive research or research done in a university and $ 69.54 when the research is conducted in business. Québec's situation compares favourably with that of Ontario, where the break-even point is $ 74.83. With a break-even point of around $ 98, Massachusetts, Michigan and New York are less competitive. The break-even point table appears in Schedule B.4 and illustrates the situation for small businesses.

Fiscal measures for research and development

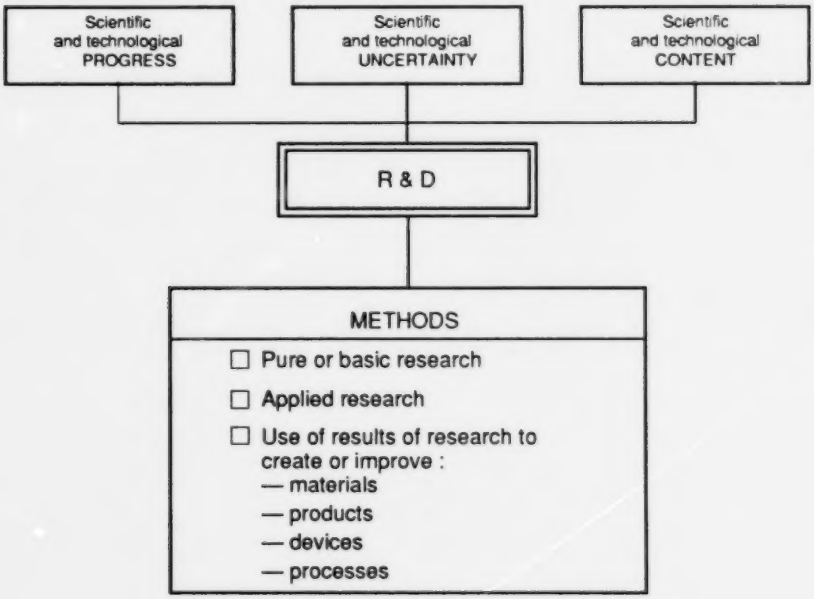
The objectives of Québec's fiscal measures applicable to R & D having been described, they will now be presented more specifically. The federal measures will also be briefly outlined. People working in this field of activity, particularly heads of firms, will thus have an overview of the tax incentives attached to R & D. This section is a simplification of existing tax measures ; it should not be interpreted as a complete rendering of the legislation in question.

The fiscal definition of R & D is briefly indicated in this section. Federal and Québec tax incentives for R & D are described, along with their characteristics. In addition, some of the points particular to the Québec measures are explained. Finally, a concrete example of the calculation of tax incentives for R & D is provided in order to give business an idea of how to apply this guide.

Fiscal definition of research and development

To help the reader understand the context, it should be noted that, for purposes of eligibility, the federal and the Québec fiscal measures are based on the same definition of R & D.

Research that qualifies is investigation carried out in a field of science or technology by means of basic or applied research undertaken for the advancement of scientific knowledge or by means of the use of results derived from research for the purpose of creating new, or improving existing materials, devices or products. It may be illustrated as follows :



To be recognized as R & D, then, an activity must result in a certain amount of scientific or technological progress, involve elements of scientific or technological uncertainty and have scientific or technological content. These are the basic criteria for determining whether activities are eligible as R & D.

The following table gives examples of eligible and ineligible activities.

Eligible activities	Ineligible activities
In support of pure or applied research or development : ☐ Engineering ☐ Design ☐ Operations research ☐ Mathematical analysis ☐ Computer programming	☐ Market research ☐ Sales promotion ☐ Quality control ☐ Routine testing ☐ Research in social sciences and humanities ☐ Mineral, petroleum and natural gas prospecting, exploration or drilling ☐ Commercial production or commercial use ☐ Style changes ☐ Routine data collection

The level of economic or financial risk and the probability of success or failure of a project are not characteristic of the activity. Projects that are simply routine engineering or routine development activities and are not related to R & D are not generally considered eligible. This is the case, for instance, for an activity based on widely available experimental results, or when the objective is to develop markets, prepare production or see to the smooth operation of a production or control system.

Information Circular 86-4R2, which may be obtained from Revenue Canada, contains useful information on this subject.

Québec tax system

At present, there are three facets to the tax incentives for R & D by business in Québec :

☐ a general 100 % deduction for current and capital expenditures ;

☐ a refundable tax credit adjusted to the size of the business and the type of research ; and

☐ the possibility for businesses of foregoing their refundable tax credits and transferring them to the private investors financing their R & D.

This last incentive makes Québec's tax system as applied to R & D flexible and is aimed at two types of businesses :

☐ those that finance their own projects, using their own funds or money they have borrowed ; and

☐ those that finance their activities with risk capital obtained through share issues.

Québec's tax incentives for businesses financing their R & D projects with their own funds or borrowed money

Basic system :

☐ 100 % deduction for all expenditures

☐ 20 % basic refundable tax credit for wages paid in Québec

☐ refundable tax credit increased to 40 % for the first $ 2 000 000 in salaries paid in Québec in a given year by a Canadian-controlled corporation whose assets are less than $ 25 000 000 or whose net equity is no more than $ 10 000 000

☐ a 2-year holiday from personal income tax on the salary paid by a business firm to a foreign researcher doing R & D for that firm.

Specific systems :

☐ Research in universities and pre-competitive research

- 100 % deduction for all expenditures
- 40 % refundable tax credit for all expenditures

☐ Research within the framework of a catalyst project

- 100 % deduction for all R & D expenditures
- 40 % refundable tax credit for all R & D expenditures
- TDF subsidy of up to 50 % of upstream and downstream expenditures related to the catalyst project and of the R & D expenditures for which the 40 % tax credit cannot be claimed.

Refundable credit and reduction of tax instalments :

☐ fully refundable tax credit

☐ reduction of monthly instalment payments for income tax and tax on capital by the value of tax credits earned monthly

Québec tax incentives for businesses that finance their R & D projects from issues of capital stock

Business	Investor	
	QBIC / R & D or QSSP / R & D	R & D venture capital company
A. Impact of financing through issues of capital stock		
— 100 % deduction for expenditures ; — R & D tax credit	— Basic deduction : • Conventional QBIC : 100 % • QSSP : Assets < $ 50 M : 100 % Assets ≥ $ 50 M and < $ 250 M : 75 %	— R & D basic deduction after expenditure is made : 100 %
B. Impact of foregoing tax credits		
— 100 % deduction for expenditures ; — The business foregoes its Québec tax credits of :		— Basic deduction ; — The investor enjoys an additionnal deduction of :
• 20 % for wages	⟶	• 50 % of wages
• 40 % for wages	⟶	• 100 % of wages
• 40 % for total expenditure	⟶	• 100 % of total expenditure

Federal tax system

The federal government grants two tax benefits for R & D :

- ☐ general 100 % deduction for current and capital expenditures ; and
- ☐ tax credit for investment in R & D that varies with the taxable revenue of the company and its location.

Federal tax incentives

- ☐ 100 % deduction for all expenditures
- ☐ 20 % tax credit for total expenditure for the business
- ☐ 30 % tax credit for the total expenditure of businesses located in the Maritimes or the Gaspé Peninsula
- ☐ 35 % tax credit for the first $ 2 000 000 spent each year for a Canadian-controlled private corporation, whose taxable revenue is less than $ 200 000, taking into consideration associated corporations

Characteristics of the Québec and federal tax systems

Québec system	Federal system
☐ R & D expenditure for which the 100 % deduction may be claimed is not reduced by the amount of the Québec or the federal tax credits	☐ R & D expenditure for which the 100 % deduction may be claimed is reduced by the amount of the Québec and the federal tax credits
☐ The tax credit is granted for R & D expenditure regardless of the federal tax credit	☐ The tax credit is granted for R & D expenditure minus the Québec tax credit
☐ The tax credit can completely cancel out the corporate income tax and tax on capital.	☐ The tax credit can be used to reduce corporate income tax, with the following restriction. — A Canadian-controlled private corporation • reduces the first $ 24 000 of income tax • reduces 75 % of the remaining taxes — Other corporations • reduces 75 % of income tax payable
☐ The remaining tax credit is fully refundable for all corporations	☐ The remaining tax credit is refundable in part only for certain corporations — Canadian-controlled private corporations • for the first $ 2 000 000 of expenditure — current expenditure : 100 % refundable — capital expenditure : 40 % refundable • for expenditure over and above $ 2 000 000 : 40 % refundable — Other corporations : not refundable The balance may be carried three years back or ten years forward
☐ The tax credit can be used to reduce the monthly instalments of income tax and tax on capital of the business.	☐ No provision to this effect
☐ A large portion of the value of the Québec and federal tax credits for small and medium-sized businesses can be financed by a loan guarantee from the SDI through financial institutions	☐ No provision to this effect

Specifics of the Québec tax system

Basic system

— Eligible wages

The 20 % and 40 % credit may be claimed for wages paid in Québec for R & D carried out in Québec. Wages include fringe benefits on which the employee is taxed.

When a business subcontracts its own R & D, it can claim as an expenditure the wages paid by the subcontractor, in Québec, to his employees, or the equivalent if the subcontractor does not have any employees.

— Eligibility for 40 % credit for wages

A private or public small or medium-sized business must take into account its associated corporations when calculating the two following criteria for the 40 % refundable tax credit for wages :

- ☐ assets below $ 25 000 000 or net equity of shareholders no more than $ 10 000 000 ; and
- ☐ the first $ 2 000 000 in expenditure for wages.

— Tax holiday for foreign researchers

The tax holiday for foreign researchers is a deduction in the calculation of taxable income equal to the salary received, and related to R & D carried out by the business in Québec before January 1, 1996 and accepted for Québec tax credit purposes. The tax holiday may be granted for a maximum of 24 months.

Among others, the conditions of eligibility for the tax holiday are as follows :

- ☐ the researcher is residing outside Canada before the employment contract is signed or he begins working ; the concept of residence is based on fact and not on citizenship. The main points considered by Revenu Québec to determine whether a person is a resident may be found in Information Bulletin IMP. 22-3 ;
- ☐ the researcher holds a post-graduate degree or the equivalent ;
- ☐ the employment contract is signed after April 30, 1987 and before January 1, 1994 ;
- ☐ the researcher works almost exclusively in R & D for the business and ;
- ☐ the researcher's employer obtains a certificate of competence from the Conseil de la science et de la technologie before the employment contract is signed or the researcher begins working.

Specific systems :

-- ***Research in universities***

Research in universities must be carried out by one of the following : [1] a Québec university, the Centre de recherche en informatique de Montréal (CRIM), the Canadian Centre for Automation and Robotics in Mining (CCARM), the Institut de recherche en exploration minérale (IREM), the Centre de caractérisation microscopique des matériaux (CM) [2] and hospital /university medical research centres.

Research must thus be carried out by one of these organizations, under a university research contract, if the business is to benefit from the 40 % refundable tax credit for its total research expenditure.

For the business to be eligible for the 40 % refundable tax credit, the university research contract must be signed before January 1, 1994 and the expenditures related to the contract must be made before January 1, 1996.

— ***Research by a linkage agency***

Businesses may make a contract to have their research project carried out by one of the following linkage agencies : [2] the Centre de recherche industrielle du Québec (CRIQ), the Centre québécois de valorisation de la biomasse (CQVB) or the Centre francophone de recherche en informatisation des organisations (CEFRIO).

When research is carried out directly by one of these linkage agencies, large businesses may benefit from the 20 % and small and medium-sized businesses from the 40 % refundable tax credit for wages.

However, when the linkage agency that received the mandate to realize an R & D project has part or all of the project carried out in a university or research centre, the expenditures made by that eligible body on behalf of the business for the R & D project entitle the business to the 40 % refundable tax credit for part or all of the expenditures, as the case may be, whether they are current or capital expenditures.

— ***Pre-competitive research***

A pre-competitive research project must be approved by the Minister of Industry, Commerce and Technology. The main criteria for approval are as follows :

- ☐ the R & D project must be carried out for a real combination of unrelated businesses ; an agreement between these businesses must ensure that their rights and obligations are fairly and reasonably divided among them ;
- ☐ the project must be related to the activities of each of the businesses and must tend to contribute directly to their technological development and their growth ;
- ☐ the research must correspond to the fiscal definition of R & D and must be pre-competitive ; and

1 Eligible university entities recognized as such at the time of the 1989-1990 Budget Speech.

2 Linkage agencies recognized as such at the time of the 1989-1990 Budget Speech.

- the R & D project must have begun after May 12, 1988 and the expenditures must be made in Québec before January 1, 1996.

The concept of pre-competitiveness rests primarily on the fact that the businesses grouped together are usually competitors. They are united by the R & D project in which they have a common technological interest and which could be useful to each of them, depending on their needs. The project may consist of basic research, applied research or, in some cases, development.

— ***Research within the framework of a catalyst project***

Briefly, the characteristics of a catalyst project are as follows :

- partnership, which means that a group of several independent businesses is working with the research community ;
- leadership by business, which means that the catalyst project must be sponsored by industrial partners ;
- the participation of businesses and research circles through a substantial input of money, goods, services or personnel ;
- technological progress, which means that the catalyst project must achieve real progress with respect to the means of production used in industry ;
- an economic impact that can be integrated into Québec's industrial structure, which implies the use of major resources to reach objectives that one partner alone could not achieve ; and
- an operational structure, which means that the project must be based on clear objectives and fairly distributed responsibilities ; the relation between participants must be established when the project is submitted.

A catalyst project is carried out entirely in Québec, although a part of it may be carried out elsewhere when partners from other jurisdictions are contributing.

A catalyst project may include research, technological transfers, product or process development or marketing. The financial contribution of the TDF, in the form of subsidies, may cover, in particular, the following eligible expenditures made during the various stages of a project.

Design and start-up (upstream expenditure) :

- prospecting expenditures ;
- feasibility study ;
- the costs incurred by the partnership ; and
- general indirect administration costs.

Implementation :

- the costs of acquiring patents and licences ;
- the costs of building a laboratory ; and
- part of the costs of acquiring goods used only partly for the project ;

Development (downstream expenditure) :

- ☐ market research related to the project results ;
- ☐ expenditures related to the obtaining of patents and licences ; and
- ☐ costs incurred prior to final marketing.

Businesses may obtain information on the operation of the fund by applying to the TDF secretariat.

System for outside financing

— QBIC / R & D — QSSP / R & D

Businesses that obtain outside financing through a QBIC or a QSSP may use part or all of the funds raised to carry out their R & D. In this case, they may conserve their Québec tax credit or forego it altogether or in part. If they forego it, the investor may benefit from a deduction in addition to the basic deduction for his investment in a QBIC or through a QSSP. This additional deduction depends on the R & D expenditure made by the business which gave up the Québec tax credit.

— R & D venture capital company

Businesses may also obtain outside financing through an R & D venture capital company. These companies do not have to be listed on the stock exchange, but they must raise funds almost exclusively in order to finance R & D of private or public corporations with assets of less than $ 250 000 000.

In this case, the investor is entitled to a 100 % basic R & D deduction when the expenditure is made by the corporation and an additional 50 % or 100 % R & D deduction, depending on the case, when the corporation foregoes the Québec tax credit for such an expenditure.

Complementary system for technological transfers

In order to accentuate technological transfers and the introduction of new technologies into Québec, a 100 % depreciation is granted a business when it acquires certain assets for use in Québec. These assets include, in particular, computers and data processing equipment as well as intangibles such as licences, patents and know-how when these rights and assets are acquired through technological transfers.

In order to make this tax benefit equitable whether businesses carry out their activities entirely in Québec or not, an additional 35 % deduction for activities outside Québec has been added to this accelerated rate of depreciation.

An example of the calculation of tax incentives for research and development

The following example shows how to calculate the net cost of an R & D project, as well as the break-even point, taking into account the tax incentives offered by both levels of government. The example is based on $ 100 spent for R & D in a university by a large manufacturing business.

		(in dollars)
A. Eligible expenditure for R & D carried out in Québec		100.00
B. Québec tax credit (A x 40 %)	40.00	
C. Federal tax credit ((A - B) X 20 %)	12.00	
D. Amount eligible for the 100 % deduction in calculating federal income (A - B - C)		48.00
E. Tax savings resulting from the federal deduction (D x 23.84 %) [1]	11.44	
F. Tax savings resulting from the Québec deduction (A x 6.16 %)	6.16	
G. **Net cost** to the business (A - (B + C + E + F))		30.40
H. **Break-even** point for the business (G / (1 - (6.16 % + 23.84 %)))		43.42
I. Sharing of financing		
• Québec (B + F)		46.16
• Federal (C + E)		23.44
• Business (A - (B + C + E + F))		30.40

1 Tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

Schedule A

A GUIDE FOR QUÉBEC BUSINESSES

Measures	Where to go	When to go	Why go
A. Federal			
Research in business ☐ 20 %, 30 % or 35 % credit for total R & D expenditure	Revenue Canada	When filing income tax returns	To claim tax credits
B. Québec			
Research in business ☐ 20 % or 40 % credit on wages	Revenu Québec	When paying monthly tax instalments or filing income tax returns	To claim tax credits
Tax holiday for foreign researchers	CST	Before the employment contract is signed and the researcher begins work	To obtain a CST certificate to qualify a researcher
Financing tax credits	SDI	When the Québec tax credit exceeds the monthly tax instalments and for federal tax credits	To increase working capital
University research carried out for a business by an eligible university or research centre [1] ☐ 40 % credit for total R & D expenditure	– Québec universities – CRIM – CCARM – IREM – (CM) [2] – hospital / university medical research centres	When carrying out an R & D project ; the eligible university or research centre must carry out the R & D	To carry through the R & D contract and obtain the 40 % credit
	Revenu Québec	Before paying a sum under the contract or within 90 days of signing the contract	To obtain the advance ruling required for the 40 % credit
Research carried out in the university through a linkage agency [1]	– CRIQ – CQVB – CEFRIO	When preparing an R & D project ; the R & D must be carried out by the eligible university or research centre through a linkage agency	For assistance in managing and coordinating the R & D project
Pre-competitive research ☐ 40 % credit for total R & D expenditure	MICT	When carrying out an R & D project	To obtain the receipt required for the 40 % credit
Catalyst projects ☐ 40 % credit for total R & D expenditure ☐ TDF subsidies for upstream and downstream expenditures and for R & D expenditure not eligible for the 40 % credit	TDF	When carrying out catalyst project	To obtain the certification required for the 40 % tax credit
Outside financing of R & D ☐ QBIC / R & D	SDI	Before the QBIC invests in a corporation	To register the QBIC
	Revenu Québec	Before the QBIC invests in a corporation	To obtain the advance ruling required for R & D deductions
☐ QSSP / R & D and R & D venture capital company	Revenu Québec	Before the date of the final receipt of the prospectus or exemption from a prospectus	To obtain the advance ruling required for R & D deductions

1 Eligible university entities and linkage agencies recognized as such at the time of the 1989-1990 Budget Speech.

Schedule B.1

NET COST[1] TO A BUSINESS OF A $ 100 R & D EXPENDITURE[2] FINANCING FROM OWN FUNDS OR FROM BORROWINGS (in dollars)

Category of research	Small or medium-sized business eligible for SBD	Manufacturing business ineligible for SBD	
		Small or medium-sized business[3]	Major business[4]
☐ Research in business	41.96	42.58	48.68
☐ Research in a university or pre-competitive research	30.63	30.40	30.40

1 According to the tax rates in force on July 1, 1991, when the Canadian tax reform has been completed.

2 Expenditures of $ 50 in wages and $ 50 in other expenditures.

3 A business with assets of less than $ 25 million or net shareholders' equity of no more than $ 10 million.

4 A business with assets of more than $ 25 million and net shareholders' equity of more than $ 10 million.

Schedule B.2

NET COST[1] TO THE PRIVATE SECTOR OF A $ 100 R & D EXPENDITURE[2] FINANCING FROM ISSUE OF CAPITAL STOCK (in dollars)

Category of research	Small and medium-sized businesses[3] eligible for the SBD			Manufacturing businesses ineligible for the SBD[4]					
				Small and medium-sized businesses[5]			Major businesses[6]		
	Net cost to investor	Tax benefits for business	Net cost to private sector	Net cost to investor	Tax benefits for business	Net cost to private sector	Net cost to investor	Tax benefits for business	Net cost to private sector
☐ Research in business	64.00	46.71	17.29	64.00	45.23	18.77	76.00	45.23	30.77
☐ Research in a university or pre-competitive research	52.00	46.71	5.29	52.00	45.23	6.77	58.00	45.23	12.77

1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

2 $ 50 in expenditure incurred for wages and $ 50 in other expenditures.

3 The business finances its R & D project using a QBIC

4 The business finances its R & D project using a QSSP, or an R & D venture capital company.

5 A business with assets of less than $ 25 million or net shareholders' equity of no more than $ 10 million.

6 A business with assets of $ 50 million to $ 250 million and net shareholders' equity of more than $ 10 million.

Schedule B.3

NET COST [1] TO A BUSINESS OF A CATALYST PROJECT (in percentage of expenditure)

Category of expenditure	Small or medium-sized business eligible for the SBD	Major manufacturing business
Without subsidy		
☐ Upstream and downstream expenditures	83.80	70.00
☐ R & D expenditure with 40 % credit	30.63	30.40
☐ R & D expenditure and upstream and downstream expenditures [2]	57.22	50.20
With subsidy for upstream and downstream expenditures		
☐ Upstream and downstream expenditures	41.90	35.00
☐ R & D expenditure with 40 % credit	30.63	30.40
☐ R & D expenditure and upstream and downstream expenditures [2]	36.27	32.70

1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

2 Of total expenditures 50 % are R & D expenditures and 50 % are upstream and downstream expenditures.

Schedule B.4

BREAK-EVEN POINTS [1] FOR A $ 100 R & D EXPENDITURE RECURRENT ANNUAL INVESTMENT [2] MAJOR MANUFACTURING BUSINESS (in dollars)

Category of expenditure	Québec	Ontario	Massachusetts	Michigan	New York
Business eligible for the SBD					
☐ Research in business	50.08	61.76	97.65	96.97	96.66
☐ Research in a university or pre-competitive research	36.55	61.76	98.91	98.27	97.92
Manufacturing business ineligible for the SBD					
☐ Research in business	69.54	74.83	98.10	97.23	97.12
☐ Research in a university or pre-competitive research	43.42	74.83	99.36	98.54	98.38

1 According to the tax rates in force on July 1, 1991, that is, when the Canadian tax reform has been completed. However, the same findings are obtained when the comparison is made using the present income tax rates. The break-even point equation is as follows :

$$\text{Break-even point} = \frac{\text{Net cost}}{(1 - T)}$$

where T corresponds to the sum of the income tax rates of the various levels of government.

2 Breakdown of total expenditures : 50 % in wages, 40 % in other current expenses and 10 % in capital expenditures for equipment. Also, the business increases its R & D expenditures by 12 % annually, which corresponds to a 25 % increase over the average R & D expenditures for the three previous years.

Schedule C

Acronyms

AQVIR	Agence québécoise de valorisation industrielle de la recherche
CCARM	Canadian Centre for Automation and Robotics in Mining
CEFRIO	Centre francophone de recherche en informatisation des organisations
$(CM)^2$	Centre de caractérisation microscopique des matériaux
CQVB	Centre québécois de valorisation de la biomasse
CRIM	Centre de recherche en informatique de Montréal
CRIQ	Centre de recherche industrielle du Québec
CST	Conseil de la science et de la technologie
FCAR	Fonds pour la formation de chercheurs et l'aide à la recherche
FRSQ	Fonds de la recherche en santé du Québec
IREM	Institut de recherche en exploration minérale
MICT	Ministère de l'Industrie, du Commerce et de la Technologie
PARIQ	Programme d'Aide de recherche et d'innovation du Québec
QBIC	Québec Business Investment Companies
QSSP	Québec Stock Savings Plan
R & D	Research and development
SBD	Small business deduction
SDI	Société de développement industriel du Québec
TDF	Technological development fund

APPENDIX F

Corporate taxation

Comparison between Québec, Ontario and selected American States

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Summary

Once the measures announced in the federal Budget Speech of April 27 and those in this Budget Speech are taken into account, the comparative analysis of corporate tax structures gives rise to three main observations on the competitiveness of Québec's tax system.

Considering taxes as a whole, the tax burden shouldered by Québec business firms compares favourably with that of the competitor jurisdictions selected for the study, namely, Ontario, Massachusetts, Michigan and the State of New York. For each of the eight sectors of activity studied, in which taxation may have a major impact on the location of firms, the tax burden in Québec is generally comparable with or even less than that of the neighbouring jurisdictions. Since, proportionally, Québec's system relies more heavily on capital taxes and payroll taxes, it is based to a much lesser extent on income tax than the other systems. Consequently, it is all the more advantageous to dynamic business firms with high rates of return.

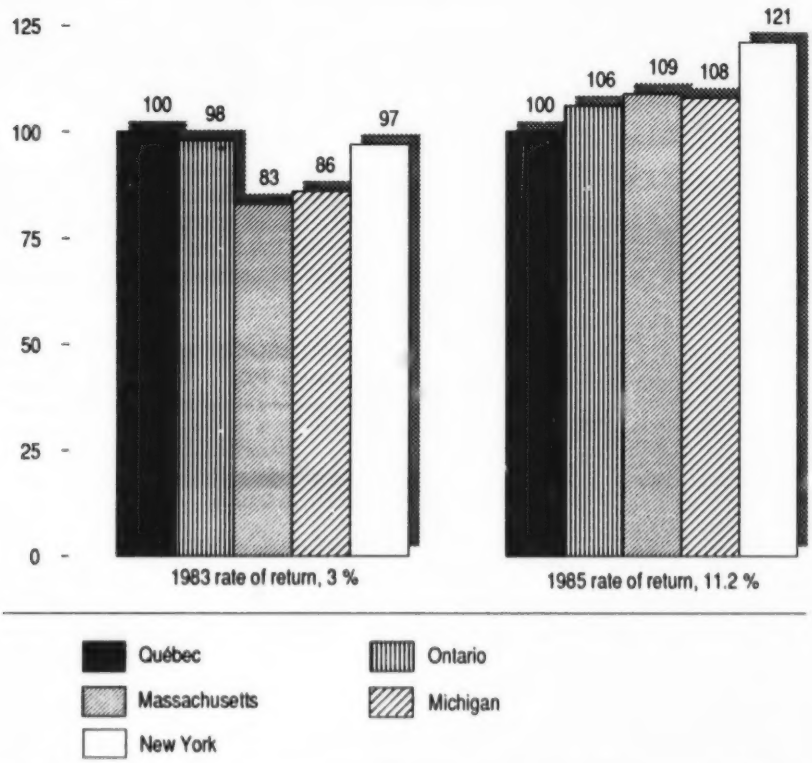
COMPARISON OF TAX STRUCTURE COMPETITIVENESS
(Québec = 100)

	Québec	Ontario	Massachusetts	Michigan	New York
Small business eligible for the SBD [1] in Canada	100	108	109	109	124
Large business ineligible for the SBD [1] in Canada	100	100	98	104	115

Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

COMPARISONS OF TAX BURDENS
SMALL PHARMACEUTICAL MANUFACTURING BUSINESS
DIFFERENT RATES OF RETURN
(Québec = 100)



Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

In addition to low income tax, Québec's system offers highly favourable incentives for fixed investment, a situation which makes it more advantageous to this type of investment than those of the other areas studied. The accelerated depreciation measures announced in the Québec Budget Speech in May 1988 offset the impact of the restrictive measures introduced into the federal tax reform and enhanced the competitiveness of Québec's tax system with regard to investment, compared to Ontario and the American jurisdictions studied. Québec's system offers business firms the highest rates of return on comparable fixed investments.

INDEX OF AFTER-TAX INTERNAL RATES OF RETURN OF AN INVESTMENT PROJECT (Québec = 100)

	Québec	Ontario	Massachusetts	Michigan	New York
Small business eligible for the SBD[1] in Canada					
Women's clothing	100	75	23	27	13
Office furniture	100	80	75	80	80
Communications equipment	100	94	48	56	35
Pharmaceuticals	100	82	44	54	59
Large business ineligible for the SBD[1] in Canada					
Women's clothing	100	44	53	55	24
Office furniture	100	60	99	102	94
Communications equipment	100	86	77	83	53
Pharmaceuticals	100	75	83	94	62

Note: A figure below 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

Lastly, the various tax incentives for R & D activities and the low income tax rate in Québec make its tax system the most favourable to R & D investment, which is essential to maintaining the overall competitiveness of business firms.

BREAK-EVEN POINT OF A $ 100 R & D EXPENDITURE RECURRING ANNUAL INVESTMENT[1] (in dollars)

	Québec	Ontario	Massachusetts	Michigan	New York
Small manufacturing business eligible for the SBD[2] in Canada					
☐ Research in business[3]	50	62	98	97	97
☐ Research in a university	37	62	99	98	98
Large manufacturing business ineligible for the SBD[2] in Canada					
☐ Research in business[5]	70	75	98	97	97
☐ Research in a university	43	75	99	99	98

Note: The lower the break-even point, the more favourable the tax system for R & D.

1 Breakdown of total expenditure : wages 50 %, other current expenditures 40 %, capital expenditures for equipment 10 %.

2 Small business deduction.

3 Business eligible in Québec for the 40 % tax credit on wages.

4 May also refer to pre-competitive research or research related to a catalyst project.

5 Business eligible in Québec for the 20 % tax credit on wages.

In short, Québec's corporate tax structure offers definite advantages to profitable, dynamic firms which invest in increasing their productive capacity and upgrading their technology. It helps Québec business firms adapt to the internationalization of markets and should allow entrepreneurs to respond to the challenges of the 1990s.

Introduction

In 1987, the corporate environment of North America was marked by major changes. The implementation of the tax reform in the United States substantially reduced corporate tax rates while broadening the tax base of businesses. In the wake of these changes, the Government of Canada introduced its own tax reform with a view to responding to the measures imposed by the American government while allowing Canadian firms to remain competitive on both foreign and domestic markets. Moreover, the negotiations on the Free Trade Agreement underscored the need for both federal and provincial governments to examine their tax systems and various corporate spending programs to determine whether they would enable our economy to adequately adapt to growing competition at the international level.

In this context, the Québec Minister of Finance called upon the services of the firm Price Waterhouse to help develop instruments for conducting comparative corporate tax analyses. These instruments were used to a large extent in the studies which motivated the corporate tax measures announced in the Budget Speech on May 12, 1988.

This appendix is aimed at updating these studies in order to better illustrate how Québec's corporate tax system compares with those of some of its main North American competitors, namely, Ontario and the states of New York, Massachusetts and Michigan. Since taxation plays a key role in the location of business firms, it is important that the Québec government's strategy of maintaining a tax system favourable to the establishment of businesses in Québec and, more generally, to the growth of the economy and employment be known and understood.

This is the first time that such a comprehensive and detailed study is used to evaluate the competitiveness of Québec's tax structure. Several comparative tax analyses have already been conducted ; however, these studies are incomplete in that they only consider a portion of the total tax burden borne by firms.[1]

In this study, the concept of the tax burden has been broadened to encompass all taxes, including income tax, capital taxes, payroll taxes, sales and excise taxes, and various taxes levied to finance local and school expenditures. The concept of payroll taxes has also been broadened to include not only the contributions to public social security and health schemes on the basis of the total wage bill, but also other contributions to private schemes whose scope makes them equivalent to the public schemes in effect in Québec. It is only by considering all the taxes shouldered by businesses that comparisons may be drawn to provide a comprehensive picture of the situation.

1 *See in particular the following studies:*

— Conference Board of Canada, "The Competitiveness of Canada's Corporate Tax Structure," February 1987 ;

— Coopers & Lybrand and Laliberté Lanctôt, "Le fardeau fiscal des sociétés de haute technologie et des particuliers de Montréal comparé à celui de Toronto, New York et Boston," August 1986 ;

— Ministère de l'Industrie et du Commerce, "Les PME au Québec, État de la situation," based on a study by Price Waterhouse, 1986.

The total tax burden imposed on firms has been analysed according to three different scenarios. In the first scenario, it was assumed that the firm invests only what is needed to keep its productive capacity stable, while in the second, the firm makes investments to increase its production. The third scenario involves a firm that incurs R & D expenditures. These three cases have made it possible to evaluate the tax systems both in a static situation and in a situation in which the firm evolves normally.

The tax systems studied correspond to those that will come into effect once the fiscal reforms have been completed in the United States, in 1990, and in Canada, in 1991. The analysis also takes into account[1] the tax measures adopted in Canada since the announcement of the tax reform, including those presented in the federal Budget Speech of April 27 and in Québec's 1989-1990 Budget Speech.

In general, this study shows that, on the whole, Québec's corporate tax system is competitive, that it is favourable to dynamic, profitable firms that are undergoing expansion, and that it offers not only appreciable but also unparalleled support to R & D. It therefore promotes economic growth and will enable Québec's entrepreneurs to rise to the challenges of the 1990s.

1 As at May 16, 1989

Methodology

All the analyses are based on a financial simulation model which makes it possible to plot, over a 10-year period, the operating results of a business firm that is representative of a given sector of activity. It also makes it possible to determine the firm's financial profile and cash flow for the same period. Cash flow is defined as operating profits, excluding income and expenditure that do not generate either cash inflow or outflow, for example, depreciation.

Representative firms were defined using the corporate financial data compiled by Statistics Canada and organized according to industrial sector and volume of assets. These firms are therefore representative of the profitability level and the financial, production and cost structures of all the firms in each of the sectors of activity studied. These statistics were compiled for the Canadian economy as a whole ; therefore, the firms that have been defined for this study are, properly speaking, representative of Canadian and not strictly Québec firms. However, there is nothing to indicate that the differences between Québec and Canadian firms operating in the same sector are sufficiently marked to bias the results.

Two representative firms have been defined for each sector : one is eligible for the small business deduction (SBD) while the other is not ; furthermore, on the basis of an assets criterion, the second is larger than the first. These two cases are intended, in particular, to reflect differences in production and profitability structures in relation to the size of firms, as well as differences in regard to the tax system applicable to these firms.

Income tax, capital taxes and payroll taxes have been estimated using the simulated financial results for each representative firm. The firm's purchasing structure has also been determined using the data gathered on real firms by Price Waterhouse ; this made it possible to estimate the various sales taxes and the taxes imposed by local governments.

Eight fields of activity were selected for the study, six in the manufacturing sector and two in the services sector. The manufacturing sector includes women's clothing, office furniture, aircraft and parts, communications equipment, pharmaceuticals, and industrial chemicals. As for the services sector, it includes the wholesale industrial machinery trade, and engineering and scientific services. These fields provide a fairly representative picture of those economic sectors in which taxation can have a major impact on the location of businesses.

In addition to Québec, the jurisdictions studied include Ontario and the states of New York, Massachusetts and Michigan. They were selected on account of their proximity to Québec, the similarity of their industrial structures, and a desire to study jurisdictions with different tax structures.

The method used to analyse the tax burden consisted in successively applying the tax system in effect in each jurisdiction to each of the representative firms defined for the study. In this way, only tax structure differences were taken into account, which would not have been the case had the firms been transferred to each of the jurisdictions studied, a situation which would have modified the entire economic environment in which the firm operated.

The present value of the tax burden over a 10-year period was used to compare the firms that did not attempt to increase their productive capacity.

Two criteria, commonly used in similar studies or by businesses themselves, were used to study the firms that made investments in order to increase their productive capacity: the present value of capital cost allowances and the after-tax internal rate of return on an investment. Obviously, the higher these two indicators, the more the tax system studied is favourable to investment.

The criterion used to compare the tax treatment of an R & D project was the break-even point, that is, the present value of income before taxes needed to recover the net cost of an investment. The lower the break-even point, the more the tax system is favourable to R & D projects.

The use of present values is justified by the fact that tax systems can vary widely with respect to the time when taxes must be paid in the lifetime of a firm and the fact that a tax dollar payable today will not have the same value as one payable over the next few years.

Comparison of tax systems

To begin with, the competitiveness of Québec's tax system for businesses that invest a minimum to renew tools, machines and other capital assets will be discussed. This is the basic analysis, to which an analysis of productive capital and R & D investment projects will be added.

The analysis will first examine the overall tax burden of businesses ; an illustration will follow of how each jurisdiction uses the different categories of taxation.

The overall tax burden

Before comparing the overall tax burden for businesses in each of the five sample jurisdictions, it should be pointed out that the tax systems in the different jurisdictions vary considerably in the importance they give to the different categories of taxation applicable to businesses, that is, income tax, tax on capital, payroll taxes, sales taxes and local taxes.

The different makeup of the tax burden in each jurisdiction may result in major variations in the relative tax burden by sector of economic activity and year. Thus, Québec's tax system, which puts more emphasis on other categories of taxation than on income tax, tends to be more advantageous during periods of strong economic growth and for dynamic business firms with high profitability. Taxes other than the income tax are more closely related to a business' production costs, while income tax is directly proportional to its profitability.

The basis for comparison retained in the case of a business with no investment projects is the present value of the overall tax burden of the business. The table on page 11 groups the regions on this basis in each of the eight sectors of activity and two types of business. The average results for the eight sectors of activity are also given. The results reflect the rates of return observed in 1985, the most recent year for which financial and fiscal statistics are available for businesses.

The table indicates that, generally, Québec's tax structure is the most competitive in the eight sectors taken as a whole, both for firms eligible for the Canadian small business deduction and for major corporations that are not eligible. Only Massachusetts has a more competitive system for large corporations. The tax burden in the State of New York is very heavy because it comprises the tax system not only of the state itself but also of the city of New York,[1] which is particularly onerous.

It should be noted that this study is not aimed at measuring the tax burden borne by business as a whole, but that of certain sectors, whose businesses could be relatively mobile. Appendix A of the Budget Speech shows that businesses in Québec's private sector generally bear a slightly higher tax burden, 1.8 % in 1990. than they would in Ontario.

1 For the purposes of this study, the following sectors are presumed to be based in New York City : women's clothing, office furniture, communications equipment, and engineering and scientific services.

The results by sector of activity indicate that Québec's tax system is ... competitive than that of eight of the 16 jurisdictions studied. In addition, in only three cases is the tax system in the other jurisdictions considerably more favourable than Québec's : large and small wholesale businesses and large industrial chemical businesses, where the tax advantage is over 10 %. All three are characterized by rates of return in 1985 that were below the average for the industries studied.

COMPARISON OF TAX STRUCTURE COMPETITIVENESS IN THE ABSENCE OF INVESTMENT PROJECTS ACCORDING TO 1985 RATES OF RETURN (Québec = 100)

Sector of activity	Québec	Ontario	Mass.	Mich.	N.Y.	Before-tax rate of return[2]
Small business eligible for the SBD[1] in Canada						
Women's clothing	100	121[3]	112	117	123	10.0
Office furniture	100	108	101	103	120	13.5
Aircraft and parts	100	99	98	93	115	12.4
Communications equipment	100	101	114	110	130	9.6
Pharmaceuticals	100	106	109	108	121	11.2
Industrial chemicals	100	98	121	116	141	13.0
Wholesale industrial equipment trade	100	101	89	85	107	10.0
Engineering and scientific services	100	98	98	99	111	7.4
Average	**100**	**108**	**109**	**109**	**124**	**11.4**
Large business ineligible for the SBD[1] in Canada						
Women's clothing	100	118[3]	111	118	120	10.5
Office furniture	100	110	101	105	118	12.7
Aircraft and parts	100	101	102	107	114	6.0
Communications equipment	100	97	98	109	115	3.8
Pharmaceuticals	100	116	113	107	123	28.5
Industrial chemicals	100	90	83	86	108	3.9
Wholesale industrial equipment trade	100	102	88	89	98	6.5
Engineering and scientific services	100	99	96	105	105	2.4
Average	**100**	**100**	**98**	**104**	**115**	**9.8**

Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

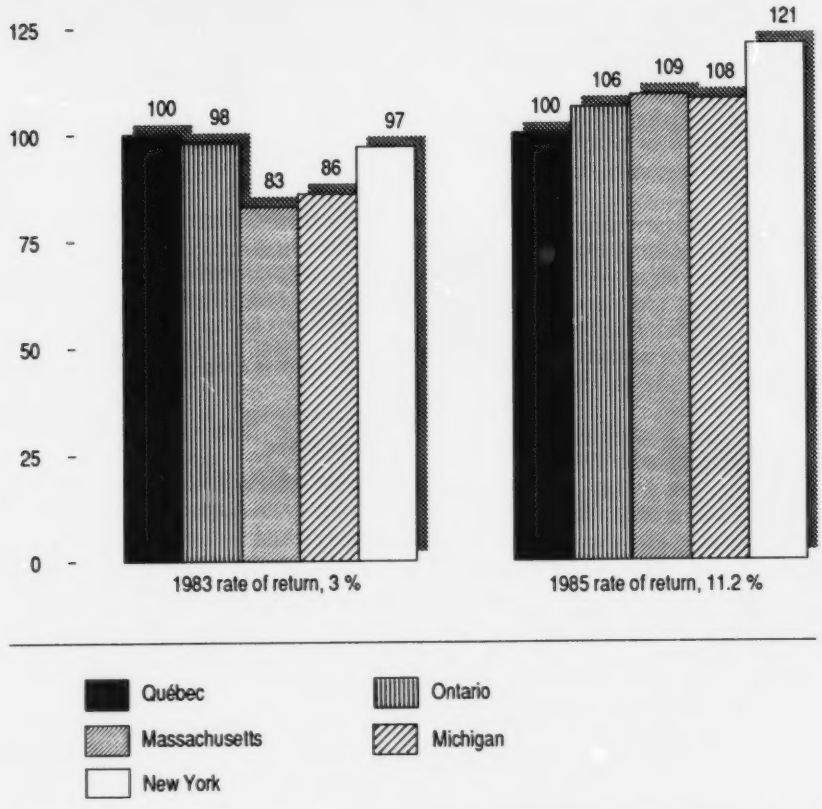
1 Small business deduction.

2 The before-tax rate of return consists of the net profit before taxes, divided by total assets of the business.

3 Ontario's relative position in the women's clothing manufacturing industry is due to the high contribution rate set for that sector by the Workmen's Compensation Board of Ontario.

As mentioned earlier, the Québec tax system tends to be more competitive for businesses with high rates of return. This phenomenon can be illustrated by comparing the results for a small pharmaceutical manufacturing firm, using the rate of return observed for this sector in 1983 rather than in 1985. In 1985 these firms had an 11.2 % rate of return, comparable to the average for the sectors under consideration, but, in 1983, this rate was only 3 %, compared to 9.7 % for the sectors as a whole. The comparison of the tax systems on that basis would have yielded a different set of results. As shown in the following chart, for such a firm, the tax burden resulting from the tax systems of the other jurisdictions would have been lighter than in Québec.

TAX BURDEN OF A SMALL PHARMACEUTICAL MANUFACTURING BUSINESS
1983 AND 1985 RATES OF RETURN
(QUÉBEC = 100)



Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

In short, the results show that in the manufacturing and services sectors studied, for which the tax system could be an important factor in choice of site, the Québec corporate tax system generally compares advantageously with those in jurisdictions competing for the same industries. Québec thus seems to have created a favourable tax environment for new businesses in these sectors, particularly for dynamic, highly profitable firms.

Breakdown of the overall tax burden into its various elements

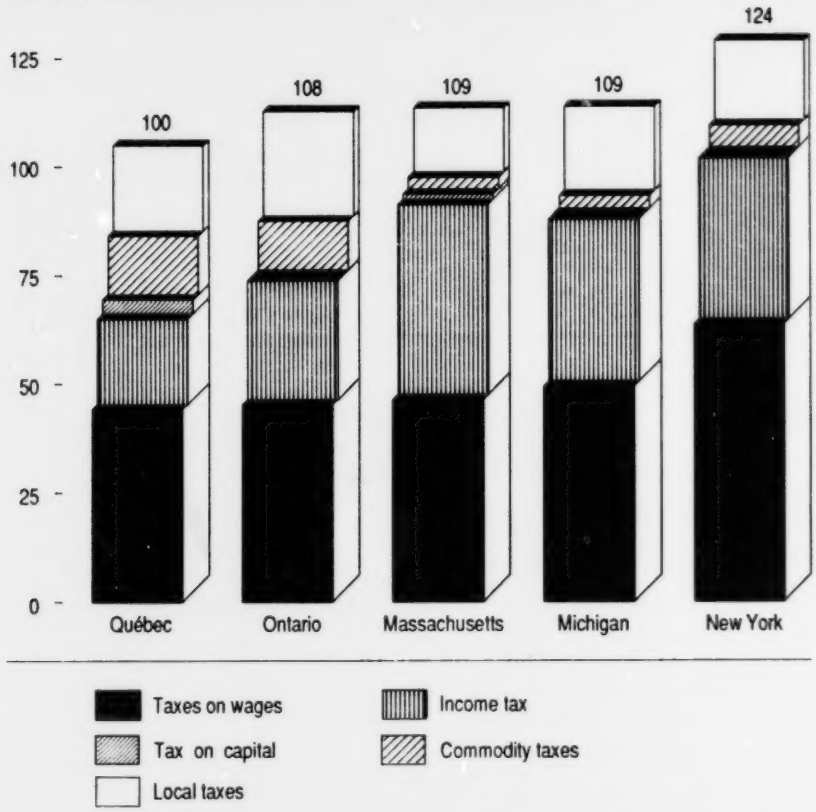
The preceding section demonstrated the general competitiveness of Québec's present tax structure. In this section, the various elements of the tax structures of the five jurisdictions studied will be compared to further elucidate this point.

To this end, the charts on pages 14 and 15 show the breakdown of the overall tax burden of the eight sectors as a whole in the five jurisdictions for firms eligible for the Canadian small business deduction and those that are not. None of the results in the eight sectors studied differs noticeably from the overall results.

Analysis of the two charts shows that Québec differs from the four other regions in the distribution of the corporate tax burden among the different categories of taxes. For instance, commodity taxes and taxes on capital are highest in Québec. On the other hand, corporate income tax is much lower than in the other jurisdictions. In fact, since 1981, Québec has had a tax structure that favours expanding and highly profitable businesses.

The charts show that payroll taxes impose a heavier burden on large businesses in Québec than in Ontario. However, Québec's system resembles Ontario's, where small businesses are concerned, and is more competitive than the American states in all cases. As Schedule 1 shows, the comparison with Ontario in regard to small businesses is affected by the women's clothing manufacturing sector, which is subject in that province to a very high rate of contribution to the Workmen's Compensation Board of Ontario. For small businesses in the seven other sectors, Québec's payroll taxes are actually 14 % higher on average.

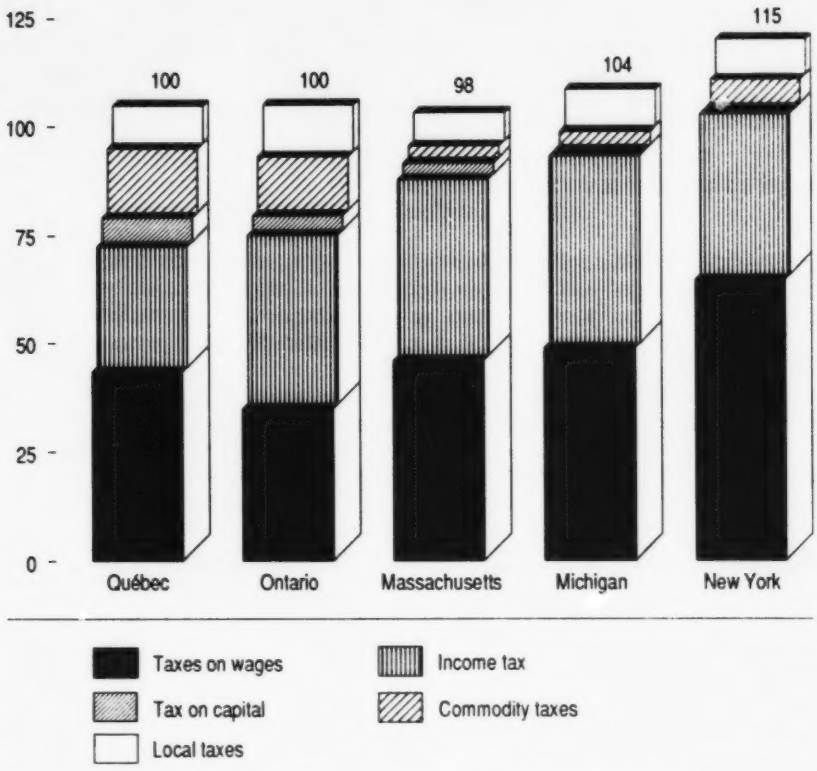
BREAKDOWN OF OVERALL TAX BURDEN
ALL SECTORS OF ACTIVITY
SMALL BUSINESS ELIGIBLE FOR THE SBD [1] IN CANADA
(Québec = 100)



Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

BREAKDOWN OF OVERALL TAX BURDEN
ALL SECTORS OF ACTIVITY
LARGE BUSINESS INELIGIBLE FOR THE SBD [1] IN CANADA
(Québec = 100)



Note : A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

In calculating these results for payroll taxes, the voluntary contributions by businesses to private and public health insurance or social insurance plans for their employees were taken into account. In Ontario, for example, employers commonly pay the OHIP (Ontario Health Insurance Plan) premiums for their employees. Similarly, in the United States, it is common practice for businesses to pay their employees' premiums for private health and social insurance plans. In Québec, these contributions are compulsory.

According to the information gathered by Price Waterhouse, voluntary contributions are sufficiently widespread to be regarded as equivalent to payroll taxes. Schedule 1 compares payroll taxes in the five jurisdictions, and shows the impact of the voluntary contributions firms outside Québec make, which resemble the compulsory contributions to Québec's public plans.

In short, although payroll taxes are generally heavier in Québec than in Ontario for big business, the overall tax burden for the eight sectors as a whole is lower in Québec. In fact, corporate income tax rates and local taxes are sufficiently less burdensome in Québec to offset a heavier payroll tax system. Moreover, Québec's tax structure distributes taxes more evenly than others among the different categories.

Comparison of tax systems for businesses that invest

The preceding section provided an evaluation of the tax burden of businesses in Québec that do not invest in order to increase production capacity. In normal circumstances, however, growing businesses do invest periodically to this end and the tax treatment given investments is one of the points on which the tax systems being studied differ. When comparing these systems, then, it is important to consider their treatment of expanding firms.

Tax measures

Schedules 2 and 3 outline tax rules governing depreciation in Canada and the United States, before and after the recent tax reforms.

In the United States, the federal government, in its tax reform, substantially modified the rules for depreciating eligible assets, in keeping with its desire to broaden the tax base and reduce tax rates. The period for capital cost depreciation was extended for most categories of assets.

In Canada, the federal tax reform also considerably increased the period over which most assets could be depreciated. In addition, if the federal government upholds the principle laid down in its White Paper, as of 1990 a business will not be able to claim a deduction for depreciation the year it acquires an asset, unless that asset is used in the production process during that same year.

Before the reforms, the Canadian tax system was much more advantageous than the American system as regards depreciation, especially for buildings and equipment used in manufacturing and processing. This advantage was even greater when the year the asset was first used corresponded to a year following the year it was acquired.

The federal tax reforms in the two countries changed this situation, however. The advantage inherent in the Canadian tax system as regards assets used for manufacturing and processing has been completely eliminated. Under the new American federal tax system, these assets can be depreciated even more rapidly than under the Canadian system : in only seven years compared with about 11 in Canada. The Canadian tax structure would become even less competitive in 1990 if Canadian law allowed deductions for depreciation only as of the year the asset is put to use.

The corporate income tax structure in Ontario and Québec resembles the federal system. Both provinces have coordinated their tax systems with most of the changes recently introduced by the federal government as regards capital cost depreciation. However, because of the extent of the restrictions to the rules, both Québec and Ontario have introduced new depreciation rules that are more advantageous than the federal ones. Thus Québec, since the 1988-1989 budget, has given business a 100 % deduction on assets used for manufacturing or processing and on computers and other data processing equipment, beginning the year they are bought. A 35 % deduction is added to this, applicable to the proportion of business done outside of Québec. In Ontario, the 1988-1989 budget allows for a supplementary deduction equal to 15 % of the purchase price of assets used for manufacturing or processing for the year they were put into service. Through these measures, Québec and Ontario have restored to their tax treatment of depreciation the degree of competitiveness they had lost through the federal reform.

Criteria for comparison

The present value of depreciation deductions provides a means of visualizing the impact of the American and Canadian reforms and the effects of the new tax measures introduced subsequently by Québec and Ontario. The after-tax internal rate of return of representative investment projects serves as a basis for comparing the overall competitiveness of the tax systems as regards investments.

These representative projects consist of a proportional increase in all direct production factors, that is, direct labour, machinery and other fixed assets, so that the business enjoys a 20 % increase in production capacity. In addition, the investment projects have been fine-tuned to obtain before-tax internal rates of return of 20 % for each sector of activity analysed, namely, women's clothing, office furniture, communications equipment and pharmaceuticals. The two services sectors, the wholesale industrial equipment trade and engineering and scientific services were not retained because of the difficulty in applying to them the concept of investment used here. Nor was any investment project drawn up for businesses engaged in the manufacture of aircraft and parts or of industrial chemicals, since similar production structures may be found in the sectors studied.

Findings

As noted above, before the reform, the Canadian system differed from the American in the speed with which capital assets used for manufacturing or processing could be depreciated. However, the measures announced under the federal tax reform in Canada eliminated practically all of this advantage. The table on page 19 compares the present value of the depreciation deductions using tax parameters in force before and after the Canadian and American reforms.

COMPARISON OF THE PRESENT VALUE OF DEPRECIATION DEDUCTIONS ASSET USED IN MANUFACTURING OR PROCESSING (United States = 100)

	United States	Québec[1]			Ontario[1]
		Before reform	After federal reform	After 1989-1990 Québec budget	After federal reform and 1988-1989 Ontario budget
Put to use during the year the asset was acquired	100.0	110.5	96.4	103.0	103.7
Put to use during the year after the asset was acquired	100.0	121.5	96.4	105.7	103.7

1 Average value of the deductions granted by the federal and provincial governments, weighted by the respective tax rates.

Before the tax reforms, Canadian businesses had depreciation deductions whose present value exceeded those given American businesses by 10.5 % to 21.5 %, depending on the year the assets were put into service. Federal reforms in Canada and the United States turned this advantage into a 3.6 % disadvantage. However, Québec and Ontario remedied the situation by introducing in their respective 1988-1989 budgets measures to stimulate investment.

The table reveals that the measures adopted by Québec reestablished a comparative advantage of between 3 % and 5.7 % in the present value of depreciation deductions for investments made in Québec over those made in the United States. This advantage depends on whether the asset is put into service during the year in which the investment expenditure was made or later. The measures adopted by Ontario in its 1988-1989 budget brought depreciation deductions in that province into line with those in Québec.

A comparison of tax systems with respect to investments and expanding businesses is more complete if reference is made to the representative firms described earlier, and the after-tax internal rate of return of an investment project is compared. Schedule 4 gives a brief explanation of how the internal rate of return is calculated. It should be noted that, by definition, after-tax rates of return vary much more from one jurisdiction to the next than the tax burden per se. Moreover, the rates of return for some jurisdictions can be so low that there seems no point in investing there. This is because the analysis compares only the tax systems and not all the other economic factors that influence decisions on where to locate and where to invest, which can often more than compensate for an unfavourable tax system. For example, the results do not mean that it would not be profitable to invest in women's clothing in the State of New York, but rather that the New York tax structure would be far from favourable if applied to Québec businesses in that sector.

The following table provides a comparison of the competitiveness of the different tax systems with respect to investments, given the Canadian and American tax reforms and the measures subsequently adopted in Canada and the United States. Schedule 5 also depicts the situation that prevailed before the tax reforms. Analysis of the results highlights the following.

INDEX OF AFTER-TAX INTERNAL RATES OF RETURN OF AN INVESTMENT PROJECT (Québec = 100)

	Québec	Ontario	Massachusetts	Michigan	New York
Small business eligible for the SBD[1] in Canada					
Women's clothing	100	75	23	27	13
Office furniture	100	80	75	80	80
Communications equipment	100	94	48	56	35
Pharmaceuticals	100	82	44	54	59
Large business ineligible for the SBD[1] in Canada					
Women's clothing	100	44	53	55	24
Office furniture	100	60	99	102	94
Communications equipment	100	86	77	83	53
Pharmaceuticals	100	75	83	94	62

Note: A figure above 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

First of all, the Québec tax system appears to be the most favourable for new investments, followed by those of Ontario and Michigan. This is because Québec has low corporate income tax rates and very advantageous tax rules on depreciation of certain capital assets. These features serve to counteract the negative effects of the federal tax reform. Québec's relative advantage compared to Ontario is greatest in the case of large businesses. Compared to the American states, the relative advantage of Québec's tax system is greater for small businesses.

Schedule 5 illustrates the fact that the measures announced in the tax reforms and subsequent budgets generally improved the relative position of Québec's tax system over Ontario's as regards investments. However, the substantial reduction in American tax rates, particularly for large businesses, made the tax burden of the American states studied less of a disadvantage than it had been.

The Québec tax system is nevertheless by far the most advantageous for businesses investing in their production capacity. It constitutes a location incentive for a North American business making an investment choice and an important factor in economic development.

Comparison of tax systems for businesses that invest in R & D

The growth of businesses is generally ensured by their ability to satisfy consumer demand with the best products possible at minimum production costs. To do so they must be able to use the findings of research and keep abreast of recent developments in science and technology. In order to motivate businesses to turn more readily to the possibilities offered by the technological revolution, the various levels of government have introduced tax measures to encourage R & D. The federal and provincial governments in Canada are much more encouraging in this respect than the American governments. Québec, for instance, has adopted a truly integrated strategy aimed at promoting R & D activities, which is explained in Appendix E of the 1989-1990 Budget Speech.

Tax measures

The Canadian government offers two distinct tax incentives for R & D expenditures : a tax credit for all expenditures incurred and a full deduction for current R & D expenditures and for the cost of assets used, other than buildings, in the year in which they are acquired. The tax credit rate is 20 %, 30 % or 35 %, depending on the location of the business and on whether or not it is eligible for the small business deduction (SBD).

The Québec government attributes great importance to the growth of R & D by Québec business and to improved cooperation between business and the universities. Québec therefore gives a full deduction for the cost of depreciable assets related to R & D in the year in which they are acquired, as does the federal government. It also grants a refundable tax credit equal to 20 % of wages paid in Québec for an R & D project ; this credit is increased to 40 % for small businesses. When research is carried out in a university or when it is pre-competitive research carried out by a business consortium, or a catalyst project, the credit is increased to 40 % for all expenditures, that is, the cost of acquiring equipment, wages and other current expenditures. Québec has also set up a technological development fund that will have $ 300 000 000 over five years. This money is to be used to provide R & D with assistance in addition to that granted under the tax system ; it may cover up to 50 % of eligible expenditures.

Ontario does not give any tax credits for R & D expenditures. Ontario's 1988-1989 budget did, however, introduce an additional deduction for current expenditures and equipment required for R & D. A small business is entitled to a 35 % additional deduction for these expenditures, while other businesses are entitled to a 25 % additional deduction. The value of this deduction is increased by 50 % for those expenditures that exceed the average R & D expenditure incurred during the three preceding years. Ontario also grants discretionary subsidies through its Technology fund. This fund may subsidize up to 50 % of the R & D expenditures incurred by a business in Ontario.

In the United States, the federal tax system grants a tax credit for R & D equal to 20 % of the amount by which current expenditure for eligible research in the year exceeds the average expenditure incurred over the three preceding years. When research is not carried out in the laboratories of the business, the credit applies only to 65 % of the expenditure. The American tax system also allows for the accelerated depreciation of assets used for scientific research at a rate equal to 40 % of the declining balance.

The tax systems of the American states are much less advantageous than that of Québec as regards R & D. Michigan has no specific tax break for R & D expenditures although all current and capital expenditures are 100 % deductible in the year in which they are incurred. In Massachusetts, businesses are entitled to a 1 % credit for assets acquired for R & D, whose useful life is at least four years. New York State pays, in the form of a tax credit, 9 % of the cost of acquiring tangible assets used for scientific research, that have a useful life of at least four years.

Treatment of subsidies

To promote R & D activities, governments have recourse to various measures, in particular, direct subsidies to business firms. However, subsidies have not been taken into account in this study, since they are usually granted on the basis of criteria that allow governments wide discretion, a situation which prevents systematic comparison.

Criterion for comparison

The criterion used to compare the competitiveness of various tax systems in the realm of R & D is the present value of before-tax income, needed to cover the net cost of an investment. This concept, known as the break-even point, takes into account the various provisions of tax systems concerning both R & D fiscal measures and the methods used to tax income from the investment.

In itself, the after-tax cost of an R & D project only determines the expenditure, net of taxes, needed to make the investment. Although a jurisdiction may prove very generous with regard to the net cost of the R & D expenditure, it may, on the other hand, heavily tax the income eventually generated by the R & D results. For this reason, it is necessary to use the concept of the break-even point. The lower the break-even point, the more the tax system of the jurisdiction will be competitive with respect to an R & D project.

Moreover, given that the method used to calculate tax benefits in Ontario and the United States depends on the average R & D expenditure incurred over the preceding three years, it is necessary to perform calculations for two situations. In the first, it is assumed that the firm carries out research on a continuous basis and that its R & D expenditures are 25 % higher than the average expenditures for the preceding three years. In the second situation, it is assumed that the firm is making a one-time R & D expenditure, i.e. that it is has not incurred expenditures for this purpose over the preceding three years. In this latter case, it is possible to present the maximum impact of the tax credits or the deductions in effect in Ontario and the United States.

Findings

Recurrent annual investment

The following table shows the break-even point of a $ 100 R & D project expenditure in the five jurisdictions under consideration. These results stem from an expenditure package consistent with the Canadian average. Schedule 6 presents the results for the various packages and it can be seen that they are similar.

BREAK-EVEN POINTS FOR $ 100 R & D EXPENDITURE RECURRENT ANNUAL INVESTMENT [1] (in dollars)

	Québec	Ontario	Massachusetts	Michigan	New York
Small manufacturing business eligible for the SBD [2] in Canada					
☐ Research in business [3]	50	62	98	97	97
☐ Research in a university [4]	37	62	99	98	98
Large manufacturing business ineligible for the SBD [2] in Canada					
☐ Research in business [5]	70	75	98	97	97
☐ Research in a university [4]	43	75	99	99	98

Note : The lower the break-even point, the more favourable the tax system for R & D.

1 Breakdown of total expenditure : wages 50 %, other current expenditures 40 %, capital expenditures for equipment 10 %.

2 Small business deduction.

3 Business eligible in Québec for the 40 % tax credit on wages.

4 May also refer to pre-competitive research or research related to a catalyst project.

5 Business eligible in Québec for the 20 % tax credit on wages.

These results show that Québec taxation is very competitive with regard to R & D. The benefits realized under the Québec tax system are maximized when research is carried out in a university or research centre on behalf of a small manufacturing firm that is eligible for the small business deduction. When the research is conducted in a large business that cannot claim the SBD, the Ontario taxation system approaches that of Québec. However, in all the cases studied, the American jurisdictions are clearly less competitive than Ontario or Québec. Finally, the taxation systems of Ontario and Québec are relatively more advantageous for firms eligible for the SBD because of their low corporate income tax rates and the more favourable terms of the fiscal measures specific to R & D.

One-time investment

The second situation studied is that of the business firm that makes a one-time investment in R & D. The following table shows the break-even point of such a project in the five regions under consideration. Again the results are based on the average R & D expenditure package in Canada as a whole. Schedule 7 shows that the results are similar for the different expenditure packages. The fact that investment is irregular has no effect whatsoever on the value of the tax benefits granted under Québec's taxation system. However, the value of R & D measures offered under the Ontario and US tax systems is increased since government assistance in these jurisdictions depends on the growth of these expenditures in the firm compared with the average expenditures during the three previous years.

BREAK-EVEN POINTS FOR A $ 100 R & D EXPENDITURE
ONE-TIME INVESTMENT[1]
(in dollars)

	Québec	Ontario	Massachusetts	Michigan	New York
Small manufacturing business eligible for the SBD[2] in Canada					
☐ Research in business[3]	50	61	83	82	82
☐ Research in a university[4]	37	61	90	89	89
Large manufacturing business ineligible for the SBD[2] in Canada					
☐ Research in business[5]	70	73	84	82	83
☐ Research in a university[4]	43	73	90	89	89

Note : The lower the break-even point, the more favourable the tax system for R & D.

1 Breakdown of total expenditure : wages 50 %, other current expenditures 40 %, capital expenditures for equipment 10 %.

2 Small business deduction.

3 Business eligible in Québec for the 40 % tax credit on wages.

4 May also refer to pre-competitive research or research related to a catalyst project.

5 Business eligible in Québec for the 20 % tax credit on wages.

The results show, however, that even here the Québec tax system remains the most advantageous with respect to R & D, whether the research is carried out in a university or in business. The advantage is less pronounced in relation to the Ontario tax system but substantial when compared with the results under the tax systems of the three American states. In addition, the benefit under the Québec system goes up with the increase in the wages portion of the R & D investment, as shown in schedules 6 and 7.

Conclusion

The comparative analysis of corporate tax structures gives rise to three main observations on the competitiveness of Québec's tax system.

Taking into account taxes as a whole, the tax burden shouldered by Québec business firms compares favourably with that of the competitor jurisdictions selected for the study, namely, Ontario, Massachusetts, Michigan and the State of New York. For each of the eight sectors of activity studied, in which taxation may have a major impact on the location of firms, the tax burden in Québec is generally comparable with or even lower than that of the neighbouring jurisdictions. Since, proportionally, Québec's system relies more heavily on capital taxes and payroll taxes, it is based to a much lesser extent on income tax than the other systems. Consequently, it is all the more advantageous to dynamic business firms with high rates of return.

In addition to low income tax, Québec's system offers highly favourable incentives for fixed investments, a situation which makes it more advantageous for this type of investment than those of the other areas studied. The accelerated depreciation measures announced in the Québec Budget Speech in May 1988 offset the impact of the restrictive measures provided for in the federal tax reform and enhanced the competitiveness of Québec's tax system with regard to investment, compared to Ontario and the American jurisdictions studied. Québec's system offers business firms the highest rates of return on comparable fixed investments.

Lastly, various tax incentives for R & D and the low income tax rates in Québec make its tax system the most favourable to R & D investment, which is essential to maintaining the overall competitiveness of business firms.

In short, Québec's corporate tax structure offers definite advantages to profitable, dynamic firms which invest in increasing their productive capacity and upgrading their technology. It helps Québec business firms to adapt to the internationalization of markets and places entrepreneurs in an excellent position to respond to the challenges of the 1990s.

Schedule 1

COMPARISON OF PAYROLL TAXES BY JURISDICTION AND ECONOMIC SECTOR
INDEX OF PRESENT VALUE OF PAYROLL TAX CONTRIBUTIONS
WITH AND WITHOUT VOLUNTARY CONTRIBUTIONS[1]
(Québec = 100)

	Québec	Ontario		Massachusetts		Michigan		New York	
		With	Without	With	Without	With	Without	With	Without
Business eligible for the SBD[2] in Canada									
Women's clothing	100	136	131	123	106	132	117	145	122
Office furniture	100	100	96	88	78	93	85	138	124
Aircraft and parts	100	76	74	105	96	110	103	138	130
Communications equipment	100	84	81	113	105	120	113	156	143
Pharmaceuticals	100	83	80	110	103	118	111	148	139
Industrial chemicals	100	69	67	91	86	97	93	145	139
Wholesale industrial equipment trade	100	83	80	108	99	116	108	154	143
Engineering and scientific services	100	84	80	122	110	130	119	141	125
Business ineligible for the SBD[2] in Canada									
Women's clothing	100	136	131	123	106	132	117	145	122
Office furniture	100	100	96	88	78	93	85	138	124
Aircraft and parts	100	76	74	105	96	110	103	138	129
Communications equipment	100	84	81	113	105	120	113	155	143
Pharmaceuticals	100	83	80	110	103	118	111	148	139
Industrial chemicals	100	69	67	91	86	97	93	145	139
Wholesale industrial equipment trade	100	83	80	108	99	116	108	153	142
Engineering and scientific services	100	84	80	122	110	130	119	140	124

1 Voluntary contributions include the contributions made voluntarily by businesses to private health and social insurance plans that may be considered equivalent to the public plans in force in Québec or to the contributions to public plans that should normally be paid by employees.

2 Small business deduction.

Schedule 2

DEPRECIATION RULES FOR THE MAIN CATEGORIES OF DEPRECIABLE ASSETS IN CANADA[1]

	Federal system		Québec	Ontario
Category of asset	**Before reform**	**After reform[2]**	**After reform**	**After reform**
Class 3[3] Buildings, plants and other similar structures	5 % of declining balance Half-year rule	4 % of declining balance Half-year rule	Concordance with federal rule	Concordance with federal rule
Class 8 Furniture and equipment not included in another category	20 % of declining balance Half-year rule	20 % of declining balance Half-year rule	Concordance with federal rule	Concordance with federal rule
Class 10[4] Automobiles, trucks and computers	30 % of declining balance Half-year rule	30 % of declining balance Half-year rule	Computers : 100 % for the year of acquisition and 35 % of the proportion of business conducted outside Québec Other assets : concordance with federal rule	Concordance with federal rule
Class 29 Manufacturing and processing machinery and equipment	Linear over 3 years 25 % – 50 % – 25 %	N/A	N/A	N/A
Class 39[4] Manufacturing and processing machinery and equipment	N/A	25 % of declining balance Half-year rule	100 % for the year of acquisition and 35 % of the proportion of business conducted outside Québec	Concordance with federal rule Additional 15 % deduction in year first put into service

N/A : Not applicable.

1 The information provided by Price Waterhouse shows that these categories of assets represent most of the expenditures for depreciable assets in the sectors studied. The selection of categories was based on Canadian taxation.

2 After reform, depreciable assets are subject to the available-for-use rule.

3 Corresponds to the new Class 1, after the reform.

4 For Québec, since the 1988-1989 Budget, these assets have been part of a new class when they are entitled to 100 % depreciation.

Schedule 3

DEPRECIATION RULES FOR THE MAIN CATEGORIES OF DEPRECIABLE ASSETS IN THE UNITED STATES

Category of asset	Before reform	After reform
Personal asset		
3 years [1]	Linear over 3 years 25 % – 38 % – 37 %	N/A
5 years [2]	Linear over 5 years 15 % - 22 % - 21 % 21 % - 21 %	40 % of double declining balance Half-year rule
7 years [3]	N/A	28.6 % of double declining balance Half-year rule
Real estate asset		
19 years [4]	Linear over 19 years Declining rate over time	N/A
31.5 years [5]	N/A	Linear over 32 years 1.72 % the 1st year 3.17 % from the 2nd to the 31st year 3.04 % the 32nd year

N/A : Not applicable

1 Corresponds to Class 10 in Canada.

2 Before reform, this category corresponded to classes 8 and 29 in Canada. After reform, it corresponds to Class 10 in Canada.

3 Corresponds to the classes 8 and 39 prevailing after reform in Canada.

4 Corresponds to Class 3 in Canada.

5 Corresponds to the new Class 1 in Canada.

Schedule 4

Calculation of the internal rate of return

This study compared the profitability of investments using the internal rate of return. This is the discount rate that makes the net present value of the cash flow from an investment equal to zero.

In addition, cash flow represents the funds derived from a firm's operations, that is, the difference between receipts and expenditures. Certain accounting items such as depreciation and deferred income tax, which do not involve any expenditures, must be added to the net accounting income to obtain the cash flow value.

The cash flow related to an investment corresponds to the difference between a firm's cash flow when it makes an investment and its cash flow in the absence of such an investment. The cash flow value is negative during the period of investment and positive once the project is in operation.

Schedule 5

COMPARISON OF THE AFTER-TAX INTERNAL RATE OF RETURN OF AN INVESTMENT PROJECT BY JURISDICTION AND ECONOMIC SECTOR BEFORE – TAX INTERNAL RATE OF RETURN OF 20 % (Québec = 100)

	Québec		Ontario		Massachusetts		Michigan		New York	
	Before reform	After [2]	Before reform	After [2]	Before reform	After	Before reform	After	Before reform	After
Small business eligible for the SBD [1] in Canada										
Women's clothing	100	100	84	75	23	23	25	27	16	13
Office furniture	100	100	85	80	67	75	70	80	71	80
Communications equipment	100	100	94	94	43	48	48	56	32	35
Pharmaceuticals	100	100	81	82	40	44	49	54	53	59
Large business ineligible for the SBD [1] in Canada										
Women's clothing	100	100	50	44	25	53	27	55	5	24
Office furniture	100	100	61	60	71	99	62	102	94	94
Communications equipment [3]	100	100	87	86	53	77	54	83	34	53
Pharmaceuticals	100	100	76	75	63	83	70	94	44	62

Note : A figure below 100 indicates that the tax system of the jurisdiction concerned is less competitive than that of Québec.

1 Small business deduction.

2 Including the measures announced in the 1989-1990 federal Budget Speech, in the 1988-1989 Québec Budget Speech and in the 1988-1989 Ontario Budget Speech.

3 These results differ slightly from those in the 1988-1989 Budget Speech because the simulated investment project was then based on a 22 % before-tax internal rate of return. Also, technical adjustments were made to the representative business simulation model.

Schedule 6

BREAK-EVEN POINTS FOR A $ 100 R & D EXPENDITURE RECURRENT ANNUAL INVESTMENT[1] (in dollars)

	Québec	Ontario	Massachusetts	Michigan	New York
Scenario 1 : 100 % wages					
Business eligible for the SBD in Canada :					
☐ Research in business	36.55	61.76	96.00	95.87	96.00
☐ Research in a university[2]	36.55	61.76	97.40	97.31	97.40
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	60.83	74.83	96.00	95.85	96.00
☐ Research in a university[2]	43.42	74.83	97.40	97.30	97.40
Other active income					
☐ Research in business	60.59	73.87	96.00	95.85	96.00
☐ Research in a university[2]	43.07	73.87	97.40	97.30	97.40
Scenario 2 : 50 % wages — 50 % other current expenditures					
Business eligible for the SBD in Canada :					
☐ Research in business	50.08	61.76	96.00	95.87	96.00
☐ Research in a university[2]	36.55	61.76	97.40	97.31	97.40
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	69.54	74.83	96.00	95.85	96.00
☐ Research in a university[2]	43.42	74.83	97.40	97.30	97.40
Other active income					
☐ Research in business	69.35	73.87	96.00	95.85	96.00
☐ Research in a university[2]	43.07	73.87	97.40	97.30	97.40
Scenario 3 : 50 % wages — 40 % other current expenditures — 10 % capital expenditures in equipment					
Business eligible for the SBD in Canada :					
☐ Research in business	50.08	61.76	97.65	96.97	96.66
☐ Research in a university[2]	36.55	61.76	98.91	98.27	97.92
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	69.54	74.83	98.10	97.23	97.12
☐ Research in a university[2]	43.42	74.83	99.36	98.54	98.38
Other active income					
☐ Research in business	69.35	73.87	98.10	97.23	97.12
☐ Research in a university[2]	43.07	73.87	99.36	98.54	98.38

Note : The lower the break-even point, the more favourable the tax system for R & D.

1 Expenditure 25 % higher than the average expenditure for the previous three years.

2 May also refer to pre-competitive research or research related to a catalyst project.

Schedule 7

BREAK-EVEN POINTS FOR A $ 100 R & D EXPENDITURE
ONE-TIME INVESTMENT[1]
(in dollars)

	Québec	Ontario	Massachusetts	Michigan	New York
Scenario 1 :					
100 % wages					
Business eligible for the SBD in Canada :					
☐ Research in business	36.55	60.58	80.00	79.33	80.00
☐ Research in a university[2]	36.55	60.58	87.00	86.57	87.00
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	60.83	72.95	80.00	79.26	80.00
☐ Research in a university[2]	43.42	72.95	87.00	86.52	87.00
Other active income					
☐ Research in business	60.59	71.65	80.00	79.26	80.00
☐ Research in a university[2]	43.07	71.65	87.00	86.52	87.00
Scenario 2 :					
50 % wages — 50 % other current expenditures					
Business eligible for the SBD in Canada :					
☐ Research in business	50.08	60.58	80.00	79.33	80.00
☐ Research in a university[2]	36.55	60.58	87.00	86.57	87.00
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	69.54	72.95	80.00	79.26	80.00
☐ Research in a university[2]	43.42	72.95	87.00	86.52	87.00
Other active income					
☐ Research in business	69.35	71.65	80.00	79.26	80.00
☐ Research in a university[2]	43.07	71.65	87.00	86.52	87.00
Scenario 3 :					
50 % wages — 40 % other current expenditures					
— 10 % capital expenditures in equipment					
Business eligible for the SBD in Canada :					
☐ Research in business	50.08	60.58	83.25	82.09	82.26
☐ Research in a university[2]	36.55	60.58	89.55	88.60	88.56
Business ineligible for the SBD in Canada :					
Manufacturing income					
☐ Research in business	69.54	72.95	83.70	82.30	82.72
☐ Research in a university[2]	43.42	72.95	90.00	88.83	89.02
Other active income					
☐ Research in business	69.35	71.65	83.70	82.30	82.72
☐ Research in a university[2]	43.07	71.65	90.00	88.83	89.02

Note : The lower the break-even point, the more favourable the tax system for R & D.

1 No R & D expenditure made by the business during the three previous years.

2 May also refer to pre-competitive research or research related to a catalyst project.